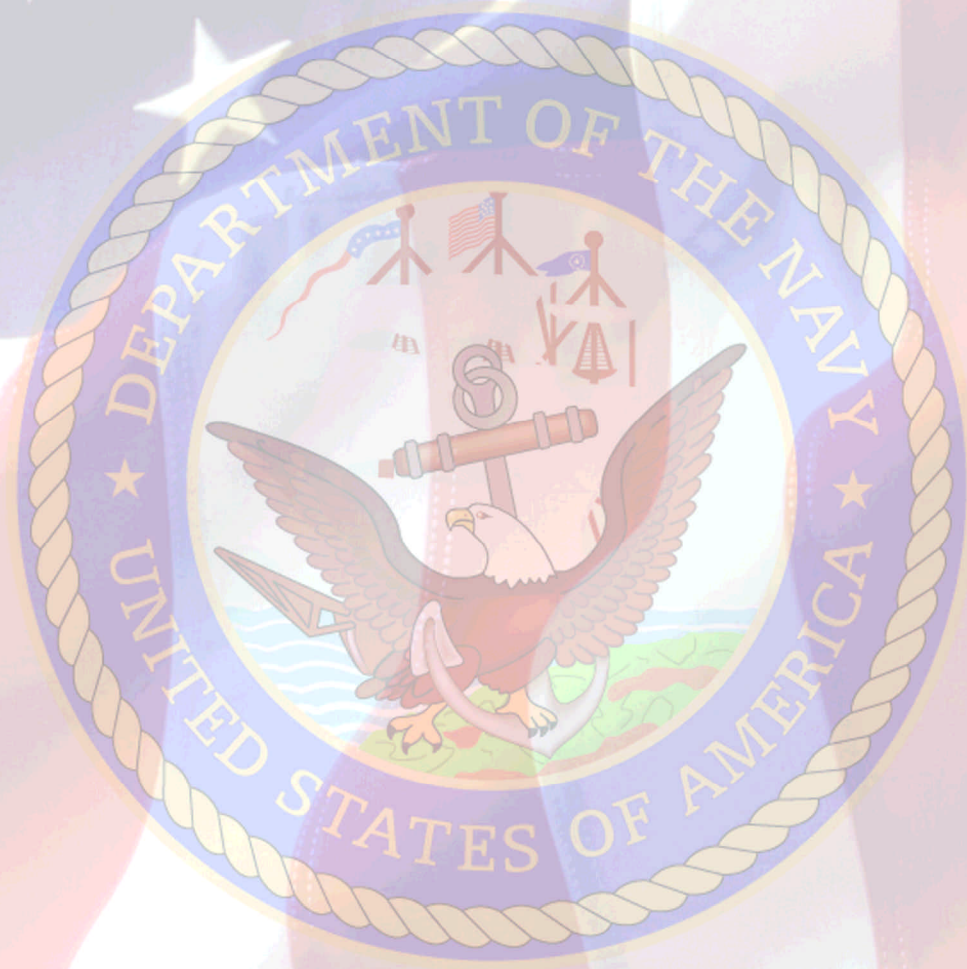


NAVY WORKING CAPITAL FUND

PRINCIPAL STATEMENTS



PRELUDE TO THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

PRINCIPAL STATEMENTS

The DON's FY 2001 Principal Financial Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the Department for the fiscal year ending September 30, 2001.

The following statements are included in the Department of the Navy's Principal Statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Combined Statement of Financing

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The accompanying notes should be considered an integral part of the Principal Statements.

Department of Defense Navy Working Capital Fund CONSOLIDATED BALANCE SHEET

As of September 30, 2001

(\$ in Thousands)

	FY 2001	FY 2000
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 1,204,403	\$ 1,473,779
Investments (Note 4)	0	0
Accounts Receivable (Note 5)	894,349	583,425
Other Assets (Note 6)	29,500	17,657
Total Intragovernmental Assets	\$ 2,128,252	\$ 2,074,861
Cash and Other Monetary Assets (Note 7)	\$ 0	\$ 0
Accounts Receivable (Note 5)	109,737	650,124
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	17,885,914	16,870,713
General Property, Plant and Equipment (Note 10)	4,151,238	4,118,173
Other Assets (Note 6)	1,373,420	1,377,027
TOTAL ASSETS	\$ 25,648,561	\$ 25,090,898
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 462,946	\$ 985,695
Debt (Note 13)	888,306	967,512
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	119,102	76,152
Total Intragovernmental Liabilities	\$ 1,470,354	\$ 2,029,359
Accounts Payable (Note 12)	\$ 1,041,391	\$ (1,034,979)
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,372,651	1,223,914
Environmental Liabilities (Note 14)	0	0
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 & Note 16)	4,045,593	3,781,870
TOTAL LIABILITIES	\$ 7,929,989	\$ 6,000,164
NET POSITION		
Unexpended Appropriations (Note 18)	\$ 0	\$ 0
Cumulative Results of Operations	17,718,572	19,090,734
TOTAL NET POSITION	\$ 17,718,572	\$ 19,090,734
TOTAL LIABILITIES AND NET POSITION	\$ 25,648,561	\$ 25,090,898

The accompanying notes are an integral part of these financial statements.

**Department of Defense
Navy Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST**

Year Ended September 30, 2001

(\$ in Thousands)

	FY 2001	FY 2000
Program Costs:		
Intragovernmental	\$ 6,189,093	\$ 5,646,484
With the Public	14,436,194	7,978,806
Total Program Cost	\$ 20,625,287	\$ 13,625,290
(Less: Earned Revenue)	(18,977,041)	(13,724,470)
Net Program Costs	\$ 1,648,246	\$ (99,180)
Cost Not Assigned to Programs	0	0
(Less: Earned Revenue not attributable to Programs)	0	0
Net Costs of Operations	\$ 1,648,246	\$ (99,180)

See notes 1 and 19

The accompanying notes are an integral part of these financial statements.

Department of Defense
Navy Working Capital Fund
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

Year Ended September 30, 2001

(\$ in Thousands)

	FY 2001	FY 2000
Net Cost of Operations	\$ 1,648,246	\$ (99,183)
Financing Sources (other than exchange revenues)		
Appropriations Used	145,530	0
Taxes and Other Nonexchange Revenue	11,352	0
Donations - Nonexchange Revenue	0	0
Imputed Financing (Note 20)	473,393	408,766
Transfers - In	43,754	77,193
Transfers - Out	(7,567)	(418,821)
Other	771,249	3,716,827
Total Financing Sources (other than Exchange Revenues)	\$ 1,437,711	\$ 3,783,965
Net Results of Operations	\$ (210,535)	\$ 3,883,148
Prior Period Adjustments (Note 20)	(1,161,631)	(2,697,098)
Net Change in Cumulative Results of Operations	\$ (1,372,166)	\$ 1,186,050
Increase (Decrease) in Unexpended Appropriations	0	0
Change in Net Position	\$ (1,372,166)	\$ 1,186,050
Net Position - Beginning of the Period	19,090,738	17,904,688
Net Position - End of the Period	\$ 17,718,572	\$ 19,090,738

See notes 1 and 20

The accompanying notes are an integral part of these financial statements.

Department of Defense
Navy Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES

Year Ended September 30, 2001

(\$ in Thousands)

	FY 2001	FY 2000
BUDGETARY RESOURCES		
Budget Authority	\$ 758,492	\$ 563,355
Unobligated Balance - Beginning of Period	2,089,156	2,462,318
Net Transfers Prior-Year Balance, Actual	43,700	61,600
Spending Authority from Offsetting Collections	21,608,321	20,653,232
Adjustments	(80,135)	(132,935)
Total Budgetary Resources	\$ 24,419,534	\$ 23,607,570
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred	\$ 21,312,877	\$ 21,518,414
Unobligated Balances - Available	3,106,657	2,089,158
Unobligated Balances - Not Available	0	(2)
Total Status of Budgetary Resources	\$ 24,419,534	\$ 23,607,570
OUTLAYS		
Obligations Incurred	\$ 21,312,877	\$ 21,518,414
Less: Spending Authority from Offsetting Collections and Obligation Adjustments	(21,608,321)	(20,653,232)
Obligated Balance, Net - Beginning of Period	3,630,862	2,444,895
Obligated Balance Transferred, Net	0	0
Less: Obligated Balance, Net - End of Period	(2,421,105)	(3,630,862)
Total Outlays	\$ 914,313	\$ (320,785)

See notes 1 and 21

The accompanying notes are an integral part of these financial statements.

**Department of Defense
Navy Working Capital Fund
COMBINED STATEMENT OF FINANCING**

Year Ended September 30, 2001
(\$ in Thousands)

	FY 2001	FY 2000
OBLIGATIONS AND NONBUDGETARY RESOURCES		
Obligations Incurred	\$ 21,312,876	\$ 21,518,414
Less: Spending Authority from Offsetting Collection and Obligation Adjustments	(21,608,321)	(20,653,232)
Donations Not in the Entity's Budget	0	0
Financing Imputed for Cost Subsidies	473,394	408,766
Transfers-In (Out)	(7,512)	88
Less: Exchange Revenue Not in the Entity's Budget	0	(295,461)
Nonexchange Revenue Not in the Entity's Budget	0	0
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0
Other	0	0
Total Obligations as Adjusted and Nonbudgetary Resources	<u>\$ 170,437</u>	<u>\$ 978,575</u>
RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS		
Change in Amount of Goods, Services, and Benefits	\$ 2,802,411	\$ (984,254)
Ordered but Not Yet Received or Provided (Increases)/Decreases		
Change in Unfilled Customer Orders	214,618	(316,547)
Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(3,013,554)	(1,476,123)
Financing Sources that Fund Costs of Prior Periods	(305)	(14,946)
Collections that Decrease Credit Program Receivables or Increase	0	0
Credit Program Liabilities		
Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0
Other - (Increases)/Decreases	0	0
Total Resources That Do Not Fund Net Costs of Operations	<u>\$ 3,170</u>	<u>\$ (2,791,870)</u>
COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES		
Depreciation and Amortization	\$ 210,671	\$ 205,930
Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0
Revaluation of Assets and Liabilities - Increases/(Decreases)	1,114,926	1,394,793
Loss of Disposition of Assets	0	0
Other - Increases/(Decreases)	0	(4,272)
Total Costs That Do Not Require Resources	<u>\$ 1,325,597</u>	<u>\$ 1,596,451</u>
FINANCING SOURCES YET TO BE PROVIDED	<u>\$ 149,042</u>	<u>\$ 117,663</u>
NET COST OF OPERATIONS	<u>\$ 1,648,246</u>	<u>\$ (99,181)</u>

See notes 1 and 22

The accompanying notes are an integral part of these financial statements.

NAVY WORKING CAPITAL FUND

NOTES TO THE PRINCIPAL STATEMENTS



NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Navy Working Capital Fund (NWCF) for fiscal year 2001. The financial statements are required by the Chief Financial Officer's (CFO) Act, as amended and expanded by the Government Management Reform Act (GMRA) of 1994 and other relevant legislation to enable Congress, agency managers, the public, and other interested parties to assess management performance. These statements are in addition to the Department of the Navy (DON) financial reports, prepared pursuant to OMB, DoD, the Defense Finance and Accounting Service (DFAS) and DON directives, that are used to monitor and control DON's use of budgetary resources. The financial statements account for all resources for which the NWCF is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that is no longer classified.

To the extent possible, the financial statements have been prepared from the books and records of the DON in accordance with the "Department of Defense Financial Management Regulation" ("DoD FMR"), the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements" and federal generally accepted accounting principles (Federal GAAP). However, the NWCF financial statements subsequently were adjusted as part of the DoD and federal-wide financial statement consolidation process. To facilitate these upper-level adjustments, the NWCF was required to present financial statement balances that agreed with related balances reported by other DoD and other civilian agency balances. The adjusted balances reported by the NWCF then enabled DoD and the Department of Treasury to eliminate, at the DoD and federal government consolidated statement levels, the effects of all intra-DoD and intra-governmental transactions occurring in FY 2001 and the comparative year, FY 2000. The effect of these adjustments on the NWCF financial statements for FY 2001 and FY 2000 was significant and pervasive. The adjustments materially affected all of the NWCF's financial statements. The NWCF adjusted all financial statement lines that related to its business transactions with other DoD components and other federal civilian agencies.

In addition to effects of the above adjustments, the NWCF is unable to implement other elements of Federal GAAP and the OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements", due to limitations of the financial management processes and systems, including financial and nonfinancial feeder systems and processes. Reported values and information for the NWCF major asset categories are derived from nonfinancial feeder systems, such as inventory and other logistic systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing statements in accordance with Federal GAAP. As a result, the NWCF cannot currently implement certain aspects of Federal GAAP of the United States of America and the OMB Bulletin No. 01-09. See Note 1.D, Note 1.M, Note 9, and Note 10 for more details.

DFAS and DON continue to implement process and system improvements addressing the limitations of financial accounting systems and nonfinancial feeder systems to produce NWCF financial statements in accordance with applicable federal standards and requirements.

In addition to systems limitations, the DoD application of the accounting standards is different in some instances from the auditor's interpretation of the standards. The DoD has reviewed the intent of the standards and applied them in a manner that management believes fulfills that intent. Financial statement elements impacted by different applications of the accounting standards are financing payments under firm fixed price contracts. A more detailed explanation of these items is discussed in the note applicable to the financial statement line item affected. See Note 1.R for more details.

The amounts presented in the financial statements and notes are rounded to the nearest thousand of dollars.

B. Mission of the Reporting Entity

The overall mission of the DON is to organize, train, and equip forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. The NWCF provides goods, services, and infrastructure to DON and other DoD customers to help ensure our military forces are mobile, ready, and have the most advanced technology.

The NWCF has prepared, for the 11th year, financial statements pursuant to CFO Act of 1990, as amended. The Act requires that financial statements be prepared and audited for each revolving fund and account that performed substantial commercial functions, such as those performed by the NWCF.

The NWCF financial statements include all activities previously financed through the Navy Industrial Fund and DON Stock Fund. DoD converted these activities to the Defense Business Operations Fund (DBOF) in October 1991. In December 1996, Under Secretary of Defense (Comptroller) (USD(C)) replaced the DBOF with four working capital funds, one of which is the NWCF. This action did not change the previous organizational reporting structure.

C. Appropriations and Funds

NWCF funded activities provide services and materials to its customers—primarily DoD components and other federal government agencies—who identify requirements for which the Congress has appropriated funds. NWCF activities operate under the revolving fund concept wherein customers are to reimburse the NWCF activities to cover the cost of services or material provided. Working Capital Funds (or revolving funds) receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders.

DON industrial activities' financial management systems, which operate under NWCF, accumulate all cost incurred in various programs or jobs plus overhead which are subsequently billed to the customers. The

NWCF also finances the purchase of consumable and repairable items, which are held in inventory at stock activities until issued and billed to the customer with reimbursement to the NWCF activities.

For fiscal year 2001, the NWCF received direct appropriations from the Congress to finance increased electricity and natural gas cost, principally in the California area. More information can be found in Note 24.B.

D. Basis of Accounting

To the extent possible with current system and process limitations, the NWCF financial statements are presented on the accrual basis of accounting as required by GAAP. The NWCF also records budgetary accounting transactions to facilitate compliance with legal constraints and controls over the use of federal funds.

However, for FY 2001, the NWCF did not fully comply with federal standards and requirements for accrual and budgetary accounting. The NWCF has efforts under way to record all its business transactions using the appropriate budgetary and proprietary accounts prescribed by the United States Government Standard General Ledger (USSGL).

E. Revenues and Other Financing Sources

Revenue is earned primarily from providing services, materials, and products to DON and others and recognized on a percentage of completion or material issue basis. Revenue for NWCF Supply Management activities is recognized when an item is dropped from inventory at the time of sale.

F. Recognition of Expenses

For financial reporting purposes, Federal GAAP requires the recognition of operating expenses in the period incurred. Accruals are made for major items such as payroll expenses, and accounts payable. Capital and other long-term assets are recognized as expenses when consumed in the NWCF's operations. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made.

Operating expenses were adjusted as a result of the elimination of balances between DoD Components. See Note 19.I, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

G. Accounting for Intragovernmental Activities

The NWCF activities interact with, and are dependent upon, other financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of some financial decisions applicable to the NWCF as though it was a stand-alone entity.

1. The DON's proportionate share of the public debt and related expenses of the Federal Government are not included. Debt issued by the Federal Government and the related interest costs are not apportioned to Federal agencies. The financial statements, therefore, do not report any portion of the public debt or

interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

2. Financing for the construction of DON facilities is obtained through budget appropriations. To the extent this financing may have been ultimately obtained through the issuance of public debt, interest costs have not been capitalized since the Treasury Department does not allocate interest costs to the benefiting agencies.

3. NWCF civilian employees participate in the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS are also covered by Social Security. The consolidated NWCF financial statements recognize an imputed expense for civilian employee pensions and other retirement benefits in the Statement of Net Cost and have recognized imputed revenue for the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position. The retirement actuarial liabilities for the MRS are reported on the financial statements of the Military Retirement Trust Fund. However, the individual NWCF Activity Groups fund a portion of pension benefits under these retirement systems but do not disclose the assets or actuarial data on the accumulated plan benefits or unfunded pensions liabilities of its employees. Reporting such amounts is the responsibility of the Office of Personnel Management for CSRS and FERS.

4. To prepare stand-alone NWCF financial statements, transactions occurring between and among NWCF activities must be eliminated. However, the NWCF cannot accurately identify all intra-NWCF transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between NWCF activities. For FY's 1999, 2000, and 2001, the NWCF accounting firm (DFAS) provided NWCF summary seller-side balances for revenue, accounts receivable, and advances from others and required the adjustment of the buyer-side records to recognize expenses, accounts payable, and advances to others. The effects of intra-NWCF transactions were then eliminated from the financial statements and are further discussed in Note 24.B.

5. The Department of the Treasury Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the Department of Treasury, FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." DoD was not able to fully implement intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The NWCF implemented the policies and procedures contained in the Intragovernmental Eliminations Task Force's "Intragovernmental Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transaction with OPM. See the Required Supplementary Information section of this report for more details on eliminating entries and reconciling Intragovernmental transactions impacting the NWCF financial statements included in this report.

H. Transactions with Foreign Governments and International Organizations

In FY 2001, the NWCF sold inventory items and services to foreign governments under the provisions of the "Arms Export Control Act of 1976." Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries generally at no profit or loss to the U.S. Government. Customers are required to make payments in advance to a trust fund maintained by the Department of the Treasury from which the NWCF is reimbursed for the cost of administering and executing the sales.

I. Funds with the U.S. Treasury

The NWCF's financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, DON, and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits. In addition, the DFAS centers and the USACE Finance Center submit reports to the Department of Treasury, by appropriation, on interagency transfers, collections received and disbursements issued. The Department of Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the NWCF's FBWT account and Treasury's FBWT sometimes result and are subsequently reconciled. Material Disclosures are provided in Note 3.

J. Foreign Currency

Not Applicable.

K. Accounts Receivable

As presented in the NWCF Balance Sheet, accounts receivable includes accounts, claims, refunds, undistributed collections, and interest receivable from other federal entities or from the public. No allowances for uncollectible accounts are provided for amounts owed by a federal agency. Claims against another federal agency are to be resolved between the agencies. Material disclosures are provided in Note 5.

L. Loans Receivable

Not Applicable.

M. Inventories and Related Property

Inventory and Related Property as reported on the NWCF financial statements consists of two primary segments: Inventory and Operating Material and Supplies (OM&S). Inventory is managed in the Supply Management Activity Group and includes DON-managed consumable and repairable items, and other Service, DLA, and General Services Administration (GSA) managed items. The NWCF uses Standard Price to record inventory items in the accounting records and, at a summary level, revalues to an approximation

of cost in accordance with SFFAS No. 3, "Accounting for Inventory and Related Property". In July 2001, DoD adopted the moving average cost method of valuing inventory for all DoD-held inventories. Moving average cost is a valuation method consistent with SFFAS No. 3.

Specific procedures for implementing moving average cost are being developed under the auspices of USD(C) with contractual support from a major accounting firm. Pending the results from the USD(C) efforts, the Supply Management Activity Group reported inventory balances at an approximation of cost using the Latest Acquisition Cost (LAC) method, consistent with SFFAS No. 3 and procedures prescribed by USD(C) and DFAS. The LAC method of valuing inventory is used because DoD logistics systems were not designed to track and regularly report original, historical cost. The revaluation method, referred to as the Cost of Goods Sold (COGS) model, employed by the NWCF requires the recognition of unrealized holding gains and losses in an inventory allowance account, which it used to adjust the recorded inventory values to a approximation of historical cost.

Although the COGS models has been revised, audit reports have raised significant unresolved issues with the reliability of the historical costs estimates calculated by the model. See Note 9.A for additional material disclosure.

Depot Maintenance, Transportation, Base Support, Information Services, and Research and Development Activity Groups reported Operating Materials and Supplies balances as of 30 September 2001. These Activity Groups maintain Operating Materials and Supplies for use on customer work as needed. These items are recorded at cost, primarily using a weighted average method, and charged as an expense using the consumption method of accounting. The nonfinancial systems supporting Operating Materials and Supplies do not, in all cases, maintain the historical cost data necessary to comply with SFFAS No. 3. Additionally, the systems do not revalue excess, obsolete, and unserviceable Operating Materials and Supplies to their net realizable value nor do the systems adequately categorize these assets as Held for Use, Held in Reserve for Future Use, Held for Repair, and Excess, Obsolete, and Unserviceable as required by SFFAS No.3. See Note 9.B for additional material disclosures.

N. Investments in U.S. Treasury Securities

Not Applicable.

O. General Property, Plant and Equipment

The NWCF categorizes all PP&E used in the performance of its mission as General PP&E. NWCF activities are required to report Required Supplementary Stewardship Information (RSSI) on Heritage Assets they own, but do not use, in performing their mission. To prevent duplicative reporting of the same Heritage Assets within DON, the total number of DON-wide Heritage Assets are reported in the RSSI of the Audited Financial Statements of the DON General Funds (Treasury Index 17).

The General Accounting Office (GAO) has determined that real property used by the NWCF, but under the jurisdiction of the Military Departments, represents an asset of the NWCF, and that such property should be reported on the financial statements as an entity asset to show the full costs of all resources and assets used in NWCF operations. DFAS is currently developing accounting and reporting procedures to allow NWCF to report finance sources and expenses associated with assets not acquired with NWCF resources (e.g., real property) as Other Revenues and Financing Sources and Depreciation and Amortization Expense.

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when (1) an asset has a useful life of two or more years, and (2) the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E should be capitalized. Cost is based upon a specific amount paid or estimated value if a receipt document is not available. The General PP&E capitalized amount includes the acquisition cost of the asset plus any additional costs such as transportation, installation and any internal costs incurred to make the asset ready for use.

The expense/investment criteria, which is the capitalization threshold, has varied over the years and was \$100,000 during FY 2001. When the expense/investment criteria changed, assets capitalized within the NWCF at a previous threshold have continued to be capitalized and depreciated at the same threshold, as follows:

Fiscal Years	Expense/Investment Threshold
FY 1996 – FY 2001	\$ 100,000
FY 1995	50,000
FY 1994	25,000
FY 1992- FY 1993	15,000

All maintenance and repair costs are recorded as an expense when they are incurred. Additional information is provided in Note 10.

P. Advances and Prepayments

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet at the time of prepayment and recognized as expenditures and expenses when the related goods and services are received.

Q. Leases

Lease payments are for rental of equipment, space, and operating facilities and are classified as either capital or operating leases.

R. Other Assets

Other Assets are intragovernmental and non-federal assets that are not included on other lines of the Balance Sheet. Note 6 provides additional disclosures related to Other Assets.

NWCF activities conduct business with commercial contractors under two primary types of contracts—fixed price contracts and cost contracts. In order to alleviate the potential financial burden on the contractor of long-term contracts, the NWCF sometimes provide financing payments. One type of financing payment that the NWCF makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, “Accounting for Selected Assets and Liabilities,” these payments are reported as construction in progress and are disclosed by the NWCF in Note 10, General Property, Plant and Equipment (GP&E). The NWCF makes other financing payments pursuant to the Federal Acquisition Regulation under fixed price contracts that are not based on percentage of completion. The NWCF reports these financing payments as advances or prepayments on the “Other Assets” line of the Balance Sheet, with related disclosures provided in Note 6. The NWCF treats these payments as advances and prepayments because it becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the NWCF is not obligated to reimburse the contractor for its costs, and the contractor is liable to repay the NWCF for the full amount of the advance. The Department has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; Federal Acquisition Regulation Parts 32, 49, 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, “Prompt Payment.” The Department has concluded that SFFAS No. 1 does not fully or adequately addresses the subject of progress payment accounting and is considering what further action is appropriate.

The Military Sealift Command (MSC) Transportation Activity Group reported an amount relating to Afloat Pre-positioning Force —Navy (APF-N) ships as Other Assets on Line 1.G of the Balance Sheet. However, the USD(C) has concluded that MSC’s arrangement for use of the APF-N ships does not meet the criteria for a capital lease and that payments made for the use of those ships should be recorded as an operating expense. The Transportation Activity Group has made long-term arrangements for use of the ships that involved Federal Financing Bank (FFB) debt financing. The outstanding principal owed to the FFB for the ships is reported on the Balance Sheet Line 3.A.2. A decision on the proper recognition and disclosure of this APF-N financing agreement and MSC’s charter arrangements for the long-term use of the ships had not been made at the time the FY 2001 NWCF financial statements were finalized. See Note 6 and Note 13 for more details on APF-N related balances reported for FY 2001.

S. Contingencies and Other Liabilities

The SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the NWCF. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when it is probable that the future event or events will confirm the loss or incurrence of a liability for the reporting entity and the amount of loss can be reasonably estimated. At any given time, DON may be subject to various legal and administrative actions and claims brought against it. For FY 2001, the NWCF does not have any contingencies to report.

T. Accrued Leave

Civilian annual leave and military leave that have been accrued and not used as of the balance sheet date are reported as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates for the leave that is earned but not taken.

U. Net Position

Net Position consists of Cumulative Results of Operations (CRO). CRO for the NWCF represents the excess of revenues over expenses since fund inception, less refunds to customers and returns to U.S. Treasury. The CRO includes donated capital, transfers of assets in and out without reimbursement, the net results of operations (revenue minus expenses), prior period adjustments, and investments in capital assets and inventory assets.

V. Treaties for Use of Foreign Bases

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

W. Comparative Data

The NWCF financial statements present the current and previous year's financial data for comparative purposes.

X. Unexpended Obligations

NWCF records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods and services have yet to be delivered.

NOTES TO THE PRINCIPAL STATEMENTS

NOTE 2. ASSETS

As of September 30, 2001

(Amounts in Thousands)

	2001 Nonentity	2001 Entity	2001 Total	2000
1. Intragovernmental Assets:				
A. Fund Balance with Treasury	\$ 0	\$ 1,204,403	\$ 1,204,403	\$ 1,473,779
B. Investments	0	0	0	0
C. Accounts Receivable	0	894,349	894,349	583,425
D. Other Assets	0	29,500	29,500	17,657
E. Total Intragovernmental Assets	\$ 0	\$ 2,128,252	\$ 2,128,252	\$ 2,074,861
2. Nonfederal Assets:				
A. Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0
B. Accounts Receivable	0	109,737	109,737	650,124
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	17,885,914	17,885,914	16,870,713
E. General Property, Plant and Equipment	0	4,151,238	4,151,238	4,118,173
F. Other Assets	0	1,373,420	1,373,420	1,377,027
G. Total Nonfederal Assets	\$ 0	\$ 23,520,309	\$ 23,520,309	\$ 23,016,037
3. Total Assets:	\$ 0	\$ 25,648,561	\$ 25,648,561	\$ 25,090,898

4. Other Information:

Asset accounts are either categorized as entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity, but are not available for use in the operations of the entity. Material disclosures for Other Assets are provided in Note 6.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30, 2001

(Amounts in Thousands)

1. Fund Balances:

- A. Appropriated Funds
- B. Revolving Funds
- C. Trust Funds
- D. Other Fund Types
- E. Total Fund Balances

FY 2001	FY 2000
\$ 0	\$ 0
1,204,403	1,473,779
0	0
0	0
<u>\$ 1,204,403</u>	<u>\$ 1,473,779</u>

2. Fund Balances Per Treasury Versus Agency:

- A. Fund Balance per Treasury
- B. Fund Balance per
- C. Reconciling Amount

\$ 1,204,403	\$ 1,473,779
1,204,403	1,473,779
<u>\$ 0</u>	<u>\$ 0</u>

3. Explanation of Reconciliation Amount:

4. Other Information Related to Fund Balance with Treasury:

The Fund Balance with Treasury of \$1,204,403 thousand reflects the FY 2000 ending balance of \$1,473,779 thousand plus FY 2001 collections, disbursements, and non-expenditure transfers recorded in the NWCF Treasury sub-limit 97X4930.002. The following table details the amounts recorded in FY 2001:

Collections	\$ 21,173,770
Disbursements	(21,554,364)
<u>Non-expenditure Transfers, Net</u>	<u>\$ 111,218</u>

The non-expenditure transfers, as recorded on SF 1151, Non Expenditure Transfer Authorization, are comprised of Transfers-in of \$189,230 thousand and Transfers-out of \$78,012 thousand. The transfers were made from or to the following NWCF Activity Groups:

Activity Group	(in thousands) Non-expenditure Transfers
Supply Management (Navy)	\$ 43,700
Base Support	145,530
Transportation	(78,012)
<u>Total</u>	<u>\$ 111,218</u>

Fund Balances with Treasury have been reestablished at the Activity Group and activity level. This effort started 1 October 1996 (for FY 1997) when the process of transferring activity level collections and disbursements to the DON departmental level at the end of each fiscal year was discontinued. During FY 1998 DON and DFAS completed work to record non-expenditure transfers at the activity level vice at the Departmental level. Plans were developed to move activity level collections and disbursements closed to the Departmental level in FY 1995 and FY 1996 back to the activity level. Currently, all activity level collection, disbursement, and non-expenditure transactions, effective from the date USD(C) returned management of cash to the DON, are recorded in the activity general ledgers.

NOTE 4. INVESTMENTS

Not Applicable.

NOTE 5. ACCOUNTS RECEIVABLE

As of September 30, 2001

(Amounts in Thousands)

	2001 Gross Due	2001 Allowance For Estimated Uncollectibles	2001 Accounts Receivable Net	2000 Accounts Receivable Net
1. Intragovernmental Receivables:	\$ 894,349	N/A	\$ 894,349	\$ 583,425
2. Nonfederal Receivables (From the Public):	\$ 109,737	\$ 0	\$ 109,737	\$ 650,124
3. Total Accounts Receivable:	\$ 1,004,086	\$ 0	\$ 1,004,086	\$ 1,233,549

4. Allowance method:

Under SFFAS No. 1, an allowance for uncollectible Accounts Receivable Non-federal should be recognized to reduce the gross amount of receivables to net realizable value. The DoD FMR cites the requirement of GAO and the Department of the Treasury that federal agencies establish allowances for uncollectible accounts. The NWCF is not in compliance with this requirement, since the NWCF uses the direct write-off method for Accounts Receivable Non-federal when an account is determined to be uncollectible. During FY 2001, there were \$22,245 thousand dollars written off for uncollectible amounts owed by non-federal customers. Amounts reported for non-federal receivables represent bills that were produced at the end of the year for which payment has not been received or amounts that have not been matched with the prepayment and advance account.

5. Other Information:

Volume 6B of the DoD FMR required balances in Undistributed Collections to be reported against accounts receivable. The total undistributed collections applied against accounts receivable amounted to \$11,352 thousand. Of this total amount, Ordnance applied \$1,081 thousand and Research and Development

applied \$10,271 thousand of undistributed collections against accounts receivables, which caused abnormal balances. A memorandum from DFAS Arlington, dated 1 March 2001, formalized guidance regarding negative accounts payable and accounts receivable resulting from adjustments for undistributed disbursements and collections. The abnormal accounts receivable was moved to accounts payable, per this guidance, with the exception of Navy Component.

No undistributed balances were allocated to Accounts Receivable-Public within the Navy industrial fund business areas. Since the balances of these Public accounts were immaterial for all industrial activities, the undistributed balances were allocated entirely among Accounts Receivable-Government. For the Supply Management - Navy business area, however, total undistributed collections were allocated between Intragovernmental and Non-federal. This allocation was based on the ratio of the balances recorded for each category as of 30 September 2001.

Supply Management, Navy has several activities that report financial data from the Financial Inventory Reporting (FIR) System. In the system, cash sales are posted to current year collections instead of being recorded directly as an account receivable. However, since undistributed collections are netted to accounts receivable, the resulting balance in accounts receivable is correctly stated. This process results from the inability of the FIR System to report trial balance data. Currently, DFAS is in the process of converting the FIR System users to the Material Financial Control System (MFCS). MFCS will enable these activities to properly record cash sales as accounts receivable rather than influencing the balance of accounts receivable through undistributed collections. Estimated completion date of all FIR System users to convert to MFCS is FY 2002.

For purposes of presentation in the NWCF FY 2001 financial statements, the accounts receivable balance has been affected by eliminating entries, which are further discussed in Note 1 and Note 24.B.

The amount of public receivables over 180-days old is \$41,097 thousand.

The amounts intragovernmental receivables over 180-days old is \$78,092 thousand.

From FY 2000 to FY 2001 Balance Sheet Line 1.A.3., Intragovernmental Accounts Receivable, has increased 53% due to guidance from DFAS Arlington requiring a reclassification of accounts receivable from government to public for eliminations and increased submissions of seller-side data for FY 2001 eliminations.

From FY 2000 to FY 2001 Balance Sheet Line 1.C., (Public) Accounts Receivable, has decreased 83.12% due to a reclassification of accounts receivable from government to public for eliminations.

NOTE 6. OTHER ASSETS

As of September 30, 2001

(Amounts in Thousands)

	FY 2001	FY 2000
1. Intragovernmental Other Assets:		
A. Advances and Prepayment	\$ 29,500	\$ 17,657
B. Other Assets	0	0
C. Total Intragovernmental Other Assets	\$ 29,500	\$ 17,657
2. Nonfederal Other Assets:		
A. Outstanding Contract Financing Payments	\$ 0	\$ 0
B. Other Assets (With the Public)	1,373,420	1,377,027
C. Total Nonfederal Other Assets	\$ 1,373,420	\$ 1,377,027
3. Total Other Assets:	\$ 1,402,920	\$ 1,394,684

4. Other Information Related to Other Assets:

Line 1.A., Advances and Prepayments consists primarily of \$27,480 thousand in Advances from Others reported by the Defense Logistics Agency against Navy Supply Management.

Line 2.B., Other Assets (With the Public) includes an outstanding debt principal reported by the Transportation activity group relating to Time Charter arrangements made by MSC for the long-term use of the APF-N Ships. The outstanding debt principal owed to the FFB amounts to \$874,783 thousand. See Note 1.R. and Note 13 for additional details.

Also, included in the Line 2.B. amount are progress payments made by Supply Management, Navy amounting to \$170,459 thousand, inventory returned to suppliers by Supply Management, Marine Corps with a credit pending in the amount of \$155,653 thousand and revenue earned but not billed by Depot Maintenance Shipyards amounting to \$90,001 thousand. Further, \$14,221 thousand is due to the reclassification of PP&E awaiting disposal. The remaining amounts of \$31,912 thousand, \$23,271 thousand, and \$13,120 thousand represents deferred charges, advances and prepayments, and unallocated costs, respectively.

For purposes of presentation in the NWCF FY 2001 financial statements, the other assets balance has been affected by eliminating entries, which are further discussed in Note 1 and Note 24.B.

From FY 2000 to FY 2001 Balance Sheet Line 1.A.4., Intragovernmental Other Assets has increased 67% due to unearned revenue trading partner elimination against Navy Supply Management.

NOTE 7. CASH AND OTHER MONETARY ASSETS

Not Applicable.

NOTE 8. DIRECT LOANS AND LOAN GUARANTEES, NONFEDERAL BORROWERS

Not Applicable.

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30, 2001

(Amounts in Thousands)

	2001	2000
1. Inventory, Net (Note 9.A.)	\$ 17,290,475	\$ 16,323,851
2. Operating Materials & Supplies, Net (Note 9.B.)	595,438	546,862
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	\$ 17,885,914	\$ 16,870,713

NOTE 9.A. INVENTORY, NET

As of September 30, 2001

(Amount in Thousands)

	2001 Inventory Gross Value	2001 Revaluation Allowance	2001 Inventory Net	2000 Inventory Net	Valuation Method
1. Inventory Categories:					
A. Available and Purchased for Resale	\$ 16,755,895	\$ (10,345,846)	\$ 6,410,049	\$ 7,363,916	LAC
B. Held for Repair	12,057,858	(2,253,753)	9,804,105	7,832,541	LAC
C. Excess, Obsolete, and Unserviceable	5,450,664	(5,347,102)	103,562	100,546	NRV
D. Raw Materials	0	0	0	0	
E. Work in Process	972,759	0	972,759	1,026,848	AC
F. Total	\$ 35,237,176	\$ (17,946,701)	\$ 17,290,475	\$ 16,323,851	

Legend for Valuation Methods:

Adjusted LAC	= Latest Acquisition Cost, adjusted for holding gains and losses
SP	= Standard Price
AC	= Actual Cost
NRV	= Net Realizable Value
O	= Other

2. Restrictions of Inventory Use, Sale, or Disposition:

Generally, there are no restrictions with regard to the use, sale, or disposition to applicable DoD activities and personnel. Other than safety and Prepositioned War Reserve levels, inventory may be sold to foreign, state and local governments, private parties and contractors in accordance with DoD, DFAS and DON policies and guidance or at the direction of the President.

3. Definitions of Column Titles:

Inventory, Gross Value represents the standard value used for inventory transactions in the financial system. Revaluation Allowance is the total difference between standard inventory values and either historical cost or net realizable value. Inventory, Net is approximate historical cost or net realizable value.

4. Other Information:

Except for the Work in Process, all Inventory categories shown in the table above apply to the Supply Management Activity Group only.

Inventory Value. Inventory data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over inventory items, they do not directly support the categorization of Inventory as held for sale, held in reserve for future sale, or excess, obsolete, and unserviceable. The DON manages only military or government specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DON material management activities. Further, unlike the commercial sector, the Department's operational cycles, based on national need, are irregular. In addition, the military risks associated with stock-out positions (e.g., weapon systems that are not mission capable due to a lack of supplies) are totally different from a commercial activity's risk of lost sales. Material held for current sale also includes material held due to a managerial determination that it should be retained to support contingencies. Therefore, the DON does not attempt to account separately for items held for "current" or "future" sales. Based on budgetary projections, the value of inventory expected to be sold in the next fiscal year is \$3,133,600 thousand net, which could be described as "Inventory Held for Sale." The remainder of the inventory available for sale, \$3,276,449 thousand net, could be considered "Inventory Held for Future Sale." There is no management or valuation difference between the two categories.

Furthermore, past audit results have led to uncertainties about the completeness and existence of the inventory quantities used to derive the values reported in the financial statements.

In July 2001, DoD adopted the moving average cost method of valuing inventory at all DoD components. In September 2001, the Office of Secretary of Defense (Comptroller) (OUSD (C)) awarded a 6-month contract to a major public accounting firm as part of efforts to implement an inventory valuation method that provides historical cost on a transaction-driven basis in accordance with the federal accounting standards. The accounting firm also will develop a methodology to derive an acceptable valuation of the historical cost of

inventory and related materials owned at the time of changing to a historical cost valuation method. The scope of this effort is DoD-wide. The contractor's analysis and recommendations will apply to DON, other Military Departments, and the Defense Logistics Agency and will encompass both the Defense Working Capital Fund and General Funds. It also will include DoD inventory and related material in the hands of commercial entities. The contractor is required to complete the study and deliver required reports and briefing materials, including its recommendations, to OUSD (C) by March 2002.

Pending the results of the OUSD(C) contractual efforts, the FY 2001 NWCF statements continue to use the Latest Acquisition Cost (LAC) method for revaluing inventory carried in accounting records at Standard Price to an approximation of cost in accordance with SFFAS No.3. Standard Price is used in day-to-day operations and is comprised of the cost of the material determined on a Latest Acquisition Cost (LAC) basis and a cost recovery rate (or surcharge) to recoup operating and inventory costs in managing the Supply Management Activity Group. The LAC method requires the recognition of unrealized holding gains and losses resulting from recalculations from LAC to arrive at an approximation of cost paid for inventory items.

Application of the LAC method requires a series of journal voucher adjustments to: (1) remove the cost recovery rate included in the Standard Price; (2) remove the cost to repair from the value of unserviceable inventory; (3) reduce to salvage value inventory which is not expected to survive the repair process; and (4) reduce to salvage value inventory which is categorized as Potential Reutilization/Disposal Stocks. These adjustments are applied to the total of the inventory and are considered (along with other computed factors) in the inventory valuation COGS model developed by USD(C) and DFAS. The surcharge and estimated cost to repair are variable depending upon the material category being valued. The FY 2001 salvage rate, which is used to revalue excess inventory, was 1.9 percent at the time of Audited Financial Statements (AFS) were compiled.

Audit reports have raised significant, unresolved issues with the reliability of the historical cost estimates calculated by the COGS model.

All inventory items are held in inventory at Standard Price. For the FY 2001 inventory revaluation, the COGS model improperly reduced the value of inventory items acquired from DLA, GSA, Army, and the Air Force at Standard Price by the amount associated with the cost recovery rate. Because this reduction for the cost recovery amount understated the actual cost of the inventory bought from these non-Navy sources, DON has initiated improvements to eliminate this adjustment in FY 2002.

The Supply Management (Navy) value of War Reserve Material is \$178,516 thousand. The Supply Management (Marine Corps) value of War Reserve Material is \$76,146 thousand. These values are included in Note 9A, Line 1.A, Available and Purchased for Resale.

In FY 1997 the Navy segment of the Supply Management Activity Group commenced the "DLR capitalization" initiative. Under this initiative, end-user held depot level repairable assets with aviation ships (e.g., aircraft carriers and helicopter ships), air stations, and Marine Aviation Logistics Squadrons are

NOTES TO THE PRINCIPAL STATEMENTS

capitalized by the Supply Management, Navy Activity Group and are being reported as inventory. The DLR Capitalization initiative was completed in March 2001 with approximately \$5,193,172 thousand of inventory capitalized at standard price value between FY 1997 and FY 2001.

Out of balance conditions between the ledger values in the accounting system and the supporting detail records have been identified in the Uniform Inventory Control Program (UICP), a subset of the Uniform Automated Data Processing System (UADPS), designed and maintained to aid in the logistic responsibilities supporting the Navy segment of the Supply Management Activity Group. Documentation from the UICP, Carcass Tracking File, Document Status File, and Receipt Tracking Index, does not reconcile to the account balances maintained in the accounting records. Analysis of this out-of-balance condition between UICP and the official accounting records has indicated that the amount of the out-of-balance condition through the end of FY 2000 equates to \$2,650,000 thousand at LAC and that the out-of-balance conditions continues to exist. In FY 2002, Navy Supply Management plans to establish a team to identify and correct problems that are directly related to the reconciling differences. Once corrective action has been taken, the proper accounting entries will be made to ensure the source records maintained in the logistic system reconcile to the accounting records.

Work in Process. The Work in Process in the table above represents amounts reported by non-Supply Management Activity Groups. The Work in Process balances include partly finished products or services at an activity, consisting of direct material, direct labor, applied overhead and other direct costs. Work in Process also includes the value of completed products or services prior to the preparation of a billing to the customer. The Work in Process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end items of material ordered but not delivered.

NOTE 9.B. OPERATING MATERIALS AND SUPPLIES, NET

As of September 30, 2001

(Amounts in Thousands)

	2001 OM&S Gross Value	2001 Revaluation Allowance	2001 OM&S, Net	2000 OM&S Net	Valuation Method
1. OM&S Categories:					
A. Held for Use	\$ 595,438	\$ 0	\$ 595,438	\$ 546,862	0
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unserviceable	0	0	0	0	
D. Total	\$ 595,438	\$ 0	\$ 595,438	\$ 546,862	

Legend for Valuation Methods:

Adjusted LAC	= Latest Acquisition Cost, adjusted for holding gains and losses
SP	= Standard Price
AC	= Actual Cost
NRV	= Net Realizable Value
O	= Other

2. Restrictions on Operating Materials & Supplies:

Generally, there are no restrictions with regard to the use, sale, or disposition of Operating Materials and Supplies (OM&S) to applicable DoD activities and personnel.

3. Definitions of Column Titles:

OM&S amounts represents the standard value used for OM&S transactions in the financial system.

Revaluation Allowance is the total difference between standard OM&S values and either historical cost or net realizable value. OM&S Net is approximate historical cost or net realizable value.

4. Other Information:

Operating Materials and Supplies are held by Depot Maintenance, Transportation, Base Support, Information Services, and Research and Development Activity Groups for use on customer work. Effective July 2001, DoD has adopted the moving average cost method of valuing OM&S at all DoD components, including the NWCF.

During FY 2001, these assets were maintained at cost, primarily using a weighted average and primarily charged as an expense using the consumption method of accounting in accordance with the DoD FMR. The cost paid by the Activity Group may be Standard Price if the asset is obtained from a Supply Management Activity Group entity. See Note 9.A. above. The Operating Materials and Supplies reported on the financial statement are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standard (SFFAS) No. 3, "Accounting for Inventory and Related Property." In addition, the systems are not able to either accurately categorize or report Operating Materials and Supplies as Held for Use, Held in Reserve for Future Use, Held for Repair, and Excess, Obsolete, and Unserviceable. Consequently, Held for Repair and Excess, Obsolete, and Unserviceable assets are not shown or revalued (Revaluation Allowance) to their estimated net realizable value and, therefore, are not in compliance with SFFAS No. 3. Based on budgetary projections, the value of Operating Materials and Supplies (OM&S) expected to be used in the next fiscal year is \$506,039 thousand, which could be described as "OM&S Held for Use." The remainder of the OM&S available for use, \$89,399 thousand, could be considered "OM&S Held for Future Use." There is no management or valuation difference between the two categories.

NOTE 9.C. STOCKPILE MATERIALS, NET

Not Applicable.

NOTES TO THE PRINCIPAL STATEMENTS

NOTE 10. GENERAL PP&E, NET

As of September 30, 2001

(Amounts in Thousands)

	2001 Depreciation/ Amortization Method	2001 Service Life	2001 Acquisition Value	2001 Accumulated Depreciation Amortization	2001 Net Book Value	2000 Prior FY Net Book Value
1. Major Asset Classes:						
A. Land	N/A	N/A	\$ 63,833	N/A	\$ 63,833	\$ 66,839
B. Buildings, Structures, and Facilities	S/L	20 Or 40	6,370,525	\$ (3,935,334)	2,435,191	2,500,118
C. Leasehold Improvements	S/L	lease term	0	0	0	0
D. Software	S/L	2-5 Or 10	212,896	(130,875)	82,021	26,683
E. Equipment	S/L	5 Or 10	3,500,604	(2,406,576)	1,094,028	1,049,386
F. Assets Under Capital Lease ¹	S/L	lease term	0	0	0	0
G. Construction-in-Progress	N/A	N/A	476,165	N/A	476,165	431,866
H. Other			0	0	0	43,281
I. Total General PP&E			\$ 10,624,023	\$ (6,472,785)	\$ 4,151,238	\$ 4,118,173

¹Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line

N/A = Not Applicable

2. Other Information:

The acquisition value of fully depreciated assets included in the table above and reported in the Balance Sheet amount to \$2,773,452 thousand as of 30 September 2001.

For those activities with General PP&E real property in the possession of contractors, the value of this real property is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of personal property in Major Asset Classes of ADP Software and Equipment does not include all of the General PP&E in the possession of contractors that is above the DoD capitalization threshold. The net book amount of such property is immaterial in relation to the total General PP&E net book value. In accordance with an approved strategy with the OMB, the GAO, the Inspector General, DoD, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with federal-wide accounting standards.

Included in the Major Asset Classes disclosed in Note 10 are assets totaling \$324,951 thousand located Outside of the Continental United States (OCONUS).

From FY 2000 to FY 2001, the value for Line 1.E., Software, increased 207% as a result of various actions from the Base Support, Supply Management, and Research and Development Activity Groups. The increase mainly stems from the Research and Development Activity Groups' initiative for Enterprise Resource Planning (ERP).

For FY 2001 the value for Line 1.H, Other, decreased from FY 2000 due to various account reclassifications. Per FASAB 6, "Other General PP&E Awaiting Disposal" was reclassified to "Other Assets". Further, per the DoD FMR, "Other General PP&E Not in Use" was reclassified to "Equipment" and now appears on Line 1.E, and Other General PP&E Accumulated Depreciation was reclassified to "Accumulated Depreciation on Equipment".

NOTE 10.A. ASSETS UNDER CAPITAL LEASE

Not Applicable.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30, 2001

(Amounts in Thousands)

	2001 Covered by Budgetary Resources	2001 Not Covered by Budgetary Resources	2001 Total	2000 Total
1. Intragovernmental Liabilities:				
A. Accounts Payable	\$ 462,946	\$ 0	\$ 462,946	\$ 985,695
B. Debt	888,306	0	888,306	967,512
C. Environmental Liabilities	0	0	0	0
D. Other	119,102	0	119,102	76,152
E. Total Intragovernmental Liabilities	\$ 1,470,354	\$ 0	\$ 1,470,354	\$ 2,029,359
2. Nonfederal Liabilities:				
A. Accounts Payable	\$ 1,041,391	\$ 0	\$ 1,041,391	\$ (1,034,979)
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	1,372,651	1,372,651	1,223,914
C. Environmental Liabilities	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	4,045,593	0	4,045,593	3,781,870
F. Total Nonfederal Liabilities	\$ 5,086,984	\$ 1,372,651	\$ 6,459,635	\$ 3,970,805
3. Total Liabilities:	\$ 6,557,338	\$ 1,372,651	\$ 7,929,989	\$ 6,000,164

4. Other Information:

Material disclosures for Other Liabilities are provided in Note 15.A.

NOTE 12. ACCOUNTS PAYABLE

As of September 30, 2001

(Amounts in Thousands)

	2001 Accounts Payable	2001 Interests, Penalties, and Administrative Fees	2001 Total	2000 Total
1. Intragovernmental Payables:	\$ 462,946	N/A	\$ 462,946	\$ 985,695
2. Nonfederal Payables (to the Public):	\$ 1,041,391	\$ 0	\$ 1,041,391	\$ (1,034,979)
3. Total	\$ 1,504,337	\$ 0	\$ 1,504,337	\$ (49,284)

4. Other Information:

OSD required balances in Undistributed Disbursements to be reported against accounts payable. Navy Component applied \$1,398,448 thousand in undistributed disbursements against accounts payable, which caused an abnormal balance. A memorandum from DFAS Arlington, dated 1 March 2001, formalized guidance regarding negative accounts payable and accounts receivable resulting from adjustments for undistributed disbursements and collections.

The Undistributed Disbursement amount includes \$1,044,715 thousand, which was an allocation of disbursements from the Defense Working Capital Fund (DWCF) corporate account. A DFAS memorandum dated 10 October 1997 directed this allocation. This allocation was not supported by specific transactional information, which would identify the value as belonging to NWCF.

For purposes of presentation in the NWCF FY 2001 financial statements, the accounts payable balance has been affected by eliminating entries, which are further discussed in Note 1 and Note 24.B.

From FY 2000 to FY 2001 Balance Sheet Line 3.A.1., Intragovernmental Accounts Payable has decreased 53.03% due to guidance from DFAS Arlington requiring a reclassification of accounts payable from government to public for eliminations and the increased submission of seller-side data for FY 2001 eliminations.

From FY 2000 to FY 2001 Balance Sheet Line 3.B., (Public) Accounts Payable has decreased 200.62% due to the reclassification of accounts payable from government to public for eliminations.

NOTE 13. DEBT

As of September 30, 2001

(Amounts in Thousands)

	2001 Beginning Balance	2001 Net Borrowings	2001 Ending Balance	2000 Ending Balance
1. Public Debt:				
A. Held by Government Accounts	N/A	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A	N/A
2. Agency Debt:				
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0
B. Debt to the Federal Financing Bank	967,512	(79,206)	888,306	967,512
C. Debt to Other Federal Agencies	0	0	0	0
D. Total Agency Debt	\$ 967,512	\$ (79,206)	\$ 888,306	\$ 967,512
3. Total Debt:	\$ 967,512	\$ (79,206)	\$ 888,306	\$ 967,512
4. Classification of Debt:				
A. Intragovernmental Debt			\$ 888,306	\$ 967,512
B. Nonfederal Debt			N/A	N/A
C. Total Debt			\$ 888,306	\$ 967,512

5. Other Information:

The ending balance for Agency Debt to the FFB on line 2.B represents the Transportation Activity Group's outstanding principal balance on the APF-N ships of \$874,783 thousand and accrued interest payable of \$13,523 thousand for FY 2001. The net borrowings on line 2.B represent the FY 2001 principal payment of \$78,012 thousand and the difference in accrued interest payable between FY 1999 and FY 2001 of \$1,194 thousand. See Note 3 for additional information on the principal payment. As disclosed in Note 6, the amount of unpaid principal disclosed above as debt is reported in the NWCF Balance Sheet as Other Assets.

The APF-N program provided ships for Time Charter to MSC to meet requirements not available in the marketplace. The program was approved by the Congress. The ships were built/converted by private Interim Vessel Owners using private, non-government financing obtained from various banking institutions. No payments were made by the government during the building/conversion phase.

When each vessel was delivered to MSC for use under the Time Charter Party, the interim financing was replaced by permanent financing, and vessel ownership was transferred to the permanent vessel owners (a trust company acting for the benefit of equity investors). The ships were financed with approximately 30 percent equity investments and 70 percent debt borrowings. The debt is in the form of loans from the FFB to

the vessel owners. Capital Hire payments under the Time Charter are assigned to FFB to cover the loan obligations, and to the vessel owners to cover the equity obligations.

The Time Charter Party requires MSC to pay Capital Hire twice a year. These payments cover repayment of principal and interest on the FFB loans, and any equity payments due the vessel owners. Separately, Operating Hire is paid twice a month to the vessel operators to cover crew costs, provisions, ship management, etc., and specified reimbursements such as fuel and port expenses. These expenses are paid from the NWCF. APF-N Time Charters are for five years with four option renewal periods of five years each, for a total of 25 years. At the end of the contract, the ships belong to the ship owner. The government does have an option to purchase the ships, if the contract is terminated, at the greater of the fair market value or termination value.

In order to simplify the payments to the FFB and to meet its requirements, the FFB cross-disburses the semi-annual principal and interest payments directly from the NWCF. This is done instead of having MSC make Capital Hire payments to the vessel owners, who would in turn make its loan obligation payments to the FFB. This is very much the same as other Time Charters where payment is assigned directly to a bank. Equity payments, on the other hand, are made by MSC from the NWCF, upon receipt of invoices.

The Time Charters contain a clause requiring payment of stipulated termination penalties in the event the government desires to end the contracts prior to their final expiration (25 years for the APF-N). These penalties apply whether the termination results from a termination for convenience by the government, or by mere failure of the government to exercise its five-year renewal options. The contract requires that the ships be sold for the best price obtainable, and, if that is below the applicable termination value, the government makes up the difference. The Time Charters also contain casualty loss values in case of total loss of the ships which would be payable by the government to the vessel owners' investors. In case of total loss the Time Charter requires the contractor to maintain casualty insurance sufficient to cover the casualty values due to the vessel owners including the amounts that they would owe to the FFB.

The DoD Appropriation Act passed in December 1985 required that 10 percent of the fifth year termination value of the vessels be obligated from Operation and Maintenance, Navy funds. This was done as each vessel was delivered.

NOTE 14. ENVIRONMENTAL LIABILITIES AND ENVIRONMENTAL DISPOSAL LIABILITIES

Not Applicable.

NOTE 15.A. OTHER LIABILITIES

As of September 30, 2001

(Amounts in Thousands)

	2001 Current Liability	2001 Noncurrent Liability	2001 Total	2000 Total
1. Intragovernmental:				
A. Advances from Others	\$ 81,416	\$ 0	\$ 81,416	\$ 46,101
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0	0
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	0	0	0	0
F. Nonenvironmental Disposal Liabilities:				
(1) ND PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0	0
H. Judgement Fund Liabilities	0	0	0	0
I. FECA Reimbursement to the Department of Labor	0	0	0	0
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	37,686	0	37,686	30,051
L. Total Intragovernmental Other Liabilities	\$ 119,102	\$ 0	\$ 119,102	\$ 76,152
2. Nonfederal:				
A. Accrued Funded Payroll and Benefits	\$ 712,126	\$ 0	\$ 712,126	\$ 622,995
B. Advances from Other	141,466	0	141,466	168,308
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	0	0	0	0
H. Nonenvironmental Disposal Liabilities:				
(1) ND PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable--Cancelled Appropriations	0	0	0	0
J. Accrued Unfunded Annual Leave	0	0	0	0
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	3,192,001	0	3,192,001	2,990,567
N. Total Nonfederal Other Liabilities	\$ 4,045,593	\$ 0	\$ 4,045,593	\$ 3,781,870
3. Total Other Liabilities:	\$ 4,164,695	\$ 0	\$ 4,164,695	\$ 3,858,022
4. Other Information Pertaining to Other Liabilities:				

During FY 2001, NWCF was able to reconcile major fiduciary balances with the Office of Personnel Management. The reconciliation amount was based on amounts taken from Defense Civilian Pay System.

NOTES TO THE PRINCIPAL STATEMENTS

Line 1.K, Intragovernmental Other Liabilities, represents liabilities of \$37,686 thousand for fringe benefits and the Voluntary Separation Incentive Program.

Line 2.B, Non-federal Advances from Others, includes \$54,661 thousand in Advances from foreign governments under the Cooperative Logistics Supply Support Arrangement program. These Advances are used by the Navy segment of Supply Management to procure additional levels of inventory to support the military requirements of a foreign government. The additional level of inventory is necessary to both ensure timely response to the needs of the foreign customer and to preclude the satisfaction of foreign customer requirements from impacting the capability to satisfy DoD requirements.

Line 2.M, Nonfederal Other Liabilities, includes amounts that are significant portions of the total liabilities presented in the NWCF Balance Sheet. A breakout of the major components of Other Liabilities follows.

Title	Amount (in thousands)
Accrual of Contractual Services	\$2,144,557
Depot Level Repairable Carcass Return Liability	1,072,395
Other Liabilities	(27,051)
Contract Holdback	1,998
Employer Contributions and Payroll Taxes Payable	102
Total, Line 2.M	\$3,192,001

The Accrual of Contractual Services of \$2,144,557 thousand represents an accrued liability for direct work performed through contractors, but not yet due for payment.

The Depot Level Repairable Carcass Return Liability of \$1,072,395 thousand represents the value of returned depot level repairable carcasses that have been received by an accountable activity from an end-use activity but for which an issue has not yet been processed.

The Other Liabilities amount of (\$27,051) thousand consists primarily of Progress Payments and Property Furnished by Others Liability. Progress Payments are maintained to show the balance of progress payments taken for accrued costs charged to Work in Process or the value of material procured and held for specific orders received from customers within the Department of Defense. The Liability for Property Furnished by Others represents the value of inventory in-transit from one accountable activity but not yet received by another accountable activity.

For purposes of presentation in the NWCF FY 2001 financial statements, the other liabilities balance has been affected by eliminating entries, which are further discussed in Note 1 and Note 24.B.

From FY 2000 to FY 2001 Balance Sheet Line 3.A.4., Intragovernmental Other Liabilities has increased 56%, due to unearned revenue for SPAWAR and NRL and the reporting of employee benefits amounts provided by DFAS Arlington.

NOTE 15.B. CAPITAL LEASE LIABILITY

Not Applicable.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Disclosures Related to Commitments and Contingencies:

None.

NOTE 17. MILITARY RETIREMENT BENEFITS AND OTHER EMPLOYMENT RELATED ACTUARIAL LIABILITIES

As of September 30, 2001

(Amount in Thousands)

	2001 Actuarial Present Value of Projected Plan Benefits	2001 Assumed Interest Rate(%)	2001 Less: Assets Available to Pay Benefits	2001 Unfunded Actuarial Liability	2000 Unfunded Actuarial Liability
1. Pension and Health Benefits:					
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0	0
C. Total Pension and Health Benefits	\$ 0		\$ 0	\$ 0	\$ 0
2. Other:					
A. FECA	\$ 1,372,651	5.21	\$ 0	\$ 1,372,651	\$ 1,223,914
B. Voluntary Separation Incentive Programs	0		0	0	0
C. DoD Education Benefits Fund	0		0	0	0
D. [Enter Program Name]	0		0	0	0
E. Total Other	\$ 1,372,651		\$ 0	\$ 1,372,651	\$ 1,223,914
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 1,372,651		\$ 0	\$ 1,372,651	\$ 1,223,914

4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

Actuarial Cost Method Used: The liability for Workmen's Compensation (FECA) includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The Department of Labor (DOL) provided the amount of \$2,968,541 thousand to DoD as the actuarial liability estimate for DON's FECA. This amount was distributed between the NWCF (\$1,372,651 thousand) and DON General Funds (\$1,595,890 thousand) based upon the number of civilian employees funded in each entity as reported in the Navy Budget Tracking System for FY 2001.

Assumptions: Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. In computing the projected annual benefit payments, the interest rate assumptions used in the discount calculations were as follows:

2001

5.21% in year 1,
5.21% in year 2, and thereafter

Market Value of Investments in Market-based and Marketable Securities:

Not Applicable.

From FY 2000 to FY 2001 Balance Sheet Line 3.C., Military Benefits and Other Employment Related Actuarial Liabilities increased 12%. DFAS Arlington calculates these amounts and provided the NWCF values to DFAS-CL.

NOTE 18. UNEXPENDED APPROPRIATIONS

Not Applicable.

NOTE 19.A. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST Disclosures Related to the Statement of Net Cost:

While the Navy's WCFs generally record transactions on an accrual basis as is required by federal generally accepted accounting principles, the systems do not always capture actual costs. Information presented on the Statement of Net Cost represent the net result of post-closing adjusting and eliminating entries made in compiling and consolidating the NWCF financial statements. These entries significantly affected the reported amounts of Intragovernmental Program Cost, Program Cost with the Public, Earned Revenue and Net Program Cost.

The post-closing adjustments were made in order to increase or decrease certain NWCF account balances reported as of 30 September 2001 to ensure agreement with related balances reported by other DoD and other federal reporting entities. Eliminating entries are required adjustments made as part of a process instituted to enable matching eliminating entries to be recorded at each financial statement consolidation level — the NWCF, DoD and Federal Government levels.

The NWCF financial statements have recognized an imputed expense for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed expenses for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

For FY 01, Judgment Fund claims are reported in the Navy GF statements and notes. Additional details on procedures followed for adjusting and eliminating entry including the effects on the financial statements are provided in Notes 1.A and 24.B.

From FY 2000 to FY 2001 the Statement of Net Cost had multiple lines that either increased or decreased greater than 10%. These large fluctuations are due to adjusting entries for eliminations.

NOTE 19.B. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

Not Applicable.

NOTE 19.C. GROSS COST TO GENERATE INTRAGOVERNMENTAL REVENUE AND EARNED REVENUE (TRANSACTIONS WITH OTHER FEDERAL—NON-DoD—ENTITIES) BY BUDGET FUNCTIONAL CLASSIFICATION

Not Applicable.

NOTE 19.D. IMPUTED EXPENSES

As of September 30, 2001

(Amounts in Thousands)

	2001	2000
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 223,285	\$ 184,297
2. Health	249,179	223,783
3. Civilian Life Insurance	929	686
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund/Litigation	0	0
7. Total Imputed Expenses	\$ 473,393	\$ 408,766

NOTE 19.E. BENEFIT PROGRAM EXPENSES

Not Applicable.

NOTE 19.F. EXCHANGE REVENUE

Disclosures Related to the Exchange Revenue:

None.

NOTE 19.G. AMOUNTS FOR FOREIGN MILITARY SALES (FMS) PROGRAM PROCUREMENTS FROM CONTRACTORS

Disclosures Related to Amounts for FMS Program Procurements from Contractors:

Not Applicable.

NOTE 19.H. STEWARDSHIP ASSETS

Disclosures Related to Stewardship Assets:

Not Applicable.

NOTE 19.I. INTRAGOVERNMENTAL REVENUE AND EXPENSE

Disclosures Related to Intragovernmental Revenue and Expense:

The NWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the NWCF was unable to reconcile intragovernmental revenue balances with its trading partners. The Department intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for the after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

The NWCF operating expenses were adjusted based on a comparison between the NWCF's accounts payable and the DoD summary level seller accounts receivables. An adjustment was posted to accounts payable and operating expenses to reflect unrecognized accounts payable and operating expenses. The operating expenses of the NWCF were adjusted upwards in the net amount of \$1,704,372 thousand.

NOTE 19.J. SUBORGANIZATION PROGRAM COSTS

Not Applicable.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2001

(Amounts in Thousands)

	2001	2000
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:		
A. Changes in Accounting Standards	\$ 0	\$ 0
B. Errors and Omissions in Prior Year Accounting Reports	(1,168,965)	(2,715,540)
C. Other Prior Period Adjustments	7,334	18,442
D. Total Prior Period Adjustments	\$ (1,161,631)	\$ (2,697,098)
2. Imputed Financing:		
A. Civilian CSRS/FERS Retirement	\$ 223,285	\$ 184,297
B. Civilian Health	249,179	223,783
C. Civilian Life Insurance	929	686
D. Military Retirement Pension	0	0
E. Military Retirement Health	0	0
F. Judgement Fund/Litigation	0	0
G. Total Imputed Financing	\$ 473,393	\$ 408,766

3. Other Information:

Line 1.B., Errors and Omissions in Prior Year Accounting Reports, consists of the net amount of several positive and negative adjustments. The amount primarily consists of prior period adjustments amounting to (\$1,186,445) thousand made by Supply Management, Navy. Of that amount, (\$1,186,738) thousand resulted from calculations made in the inventory valuation model which implements valuation policy as prescribed in the DoD FMR, as modified and implemented by DoD and DFAS. This model calculates a prior period adjustment to the cost of goods sold. See Note 1.M. for further discussion of the inventory revaluation model. The remaining \$293 thousand by Supply Management, Navy represents a reversal of a duplicate expense posting from a prior year.

Line 1.C., Other Prior Period Adjustments, is a net amount after several positive and negative adjustments. The amount consists primarily of an adjustment of \$12,555 thousand representing prior year contractual services and supplies production cost and general cost for CINCLANTFLT, and depreciation adjustments for Depot Maintenance Shipyards amounting to (\$3,172) thousand. Also included in Line 1.C. is an amount of (\$2,222) for Base Support, Public Works Centers which represents deferred AOR.

The Statement of Changes in Net Position, Line 2.G., Other, amounting to \$771,251 thousand, primarily represents amounts reclassified to Other Gains or Other Losses from Transfers – In and Transfers – Out that could not be eliminated through intragovernmental eliminations. For the purpose of presentation in the

NOTES TO THE PRINCIPAL STATEMENTS

NWCF FY 2001 financial statements, Transfers – In were required to agree with Transfers – Out received from the seller-side data. Amounts that could not be eliminated were reclassified to Other Gains or Other Losses.

NOTE 21.A. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2001

(Amounts in Thousands)

	2001	2000
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 4,316,473	\$ 7,118,877
2. Available Borrowing and Contract Authority at the End of the Period	\$ 4,857,081	\$ 4,207,375

3. Other Information:

The Statement of Budgetary Resources is an image of the monthly Report on Budget Execution (SF 133). These reports should be produced using budgetary accounts. However, the NWCF uses proprietary accounts because its financial accounting systems were not designed to produce budgetary accounting data. The DON and DFAS are in the process of implementing new accounting systems, such as the Defense Industrial Financial Management System (DIFMS) at Depot Maintenance and Research and Development activities and the Defense Working Capital Accounting System (DWAS) at Base Support activities. These new accounting systems will contain both proprietary and budgetary account structures using the U.S. Standard General Ledger and, therefore, will have the capability to produce the Statement of Budgetary Resources and SF 133.

The SF 133 does not measure the NWCF's budget execution against budgetary resources. Budgetary resources are recorded in the accounting records and reported on the basis of customer orders received and contract authority invoked. On these reports, the spending authority from offsetting collections during the period of execution is based upon the approved President's Budget estimate of anticipated customer orders. However, at 30 September, the actual customer orders are reported on this line of the report since actual execution experience replaces the estimated values.

For the SF 133, Supply Management's revenue is defined as gross sales less credit returns. For these financial statements, revenue is defined as gross sales. Credit returns are used to the inventory valuation model to calculate the cost value of the inventory and cost of goods sold. The difference in "meanings" causes significant variances in the reports.

On these budgetary reports, the net outlays (collections and disbursements) year to date are reported based on the amounts reported to U.S. Treasury from the Centralized Expenditures/Reimbursement Processing

System. In FY 2001, the differences between the U.S. Treasury and the NWCF activity ledgers have been minimal, and the cause is related to timing or the type of transactions. The differences are recorded as undistributed disbursements and collections on the departmental reports.

While there may be no impact upon the U.S. Treasury balance, the above differences have created distortions in the Accounts Receivable and Accounts Payable from a budgetary reporting perspective on the SF 133. In addition, Accounts Receivable and Accounts Payable are handled differently on the monthly SF 133 as compared to the monthly Accounting Report (AR) 1307 and financial statements. Also, problems with undistributed collections and disbursements have created abnormal balances for Accounts Receivable and Accounts Payable on the SF 133.

DFAS and DON worked with USD(C) to correct abnormal balances and a new crosswalk has been implemented using proprietary accounts in order to improve budgetary reporting on the SF 133 as well as the Statement of Budgetary Resources. Once new accounting systems are deployed at NWCF activities, the budgetary account structure will replace the proprietary account crosswalk.

Intra-agency transactions have not been eliminated on the Statement of Budgetary Resources because the statements are presented as combined. Eliminating entries for this statement are deferred by the revised OMB 01-09 bulletin for FY 2001.

See the Combining Statement of Budgetary Resources in the Required Supplementary Information section of this report.

NOTE 21.B. DISCLOSURES RELATED TO PROBLEM DISBURSEMENTS, IN-TRANSIT DISBURSEMENTS AND SUSPENSE/BUDGET CLEARING ACCOUNTS

As of September 30, 2001

(Amounts in Thousands)	1999	2000	2001	Cumulative (Decrease)/ Increase
1. Problem Disbursements	\$ 471,000	\$ 376,000	\$ 183,000	\$ (288,000)
2. In-transit Disbursements, Net	\$ 390,741	\$ 271,181	\$ 0	\$ (390,741)

3. Other Information Related to Problem Disbursements and In-transit Disbursements:

The NWCF has an absolute amount of \$183,000 thousand of problem disbursements and no in-transit disbursements that represent disbursements of NWCF funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using

NOTES TO THE PRINCIPAL STATEMENTS

available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursements and in-transit disbursements arise when the NWCF various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. The NWCF has efforts underway to improve the systems and to resolve all previous problem disbursements and process all in-transit disbursements.

4. Suspense/Budget Clearing Accounts

Accounts	September 1999	September 2000	September 2001
F3875	\$ 0	\$ 0	\$ 0
F3880	(7,927)	2,118	0
F3885	0	0	0
F3886	0	0	0
Total	\$ (7,927)	\$ 2,118	\$ 0

5. Other Information Related to Suspense/Budget Clearing Accounts:

Beginning with FY 2001, the NWCF Suspense/Budget Clearing Accounts are being reported under Navy General Funds, Index 17.

NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING

Disclosures Related to the Statement of Financing:

The Statement of Financing is designed to provide information on the total resources used by an entity, to explain how those resources were used to finance orders for goods and services not yet delivered, to acquire assets and liabilities, and to fund the entity's net cost of operations. It is designed to report the differences and facilitate the reconciliation of accrual-based amounts used in the Statement of Net Cost and obligation-based amounts used in the Statement of Budgetary Resources. The computations and presentation of items in the Statement of Financing demonstrate that the budgetary and proprietary information in an entity's financial management systems are in agreement. Because DFAS NWCF accounting systems do not include budgetary accounts, the Statement of Budgetary Resources is produced using proprietary accounts. Additionally, current DFAS NWCF accounting systems may not contain the detail level information required to appropriately complete this Statement. Due to the system deficiencies, Statement of Financing Line 2.C., Costs Capitalized on the Balance Sheet, was adjusted upwardly by \$3,587,063 thousand. Therefore, the data presented on the Statement of Financing may not meet the intent of the DoD FMR.

NOTE 23. DISCLOSURES RELATED TO THE STATEMENT OF CUSTODIAL ACTIVITY

Disclosures Related to the Statement of Custodial Activity:

Not Applicable.

NOTE 24. OTHER DISCLOSURES

NOTE 24.A. LEASES

1.ENTITY AS LESSEE-Operating Leases

A. Description of lease arrangements:

As of September 30, 2001

(Amounts in Thousands)

	2001 Asset Category 1	2001 Asset Category 2	2001 Asset Category 3	2001 Total	2000 Total
B. Future Payments Due:					
Fiscal Year					
2002	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,300
2003	0	0	0	0	0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0
After 5 Years	0	0	0	0	0
Total Future Lease Payments Due	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,300

2.ENTITY AS LESSOR:

A.Capital Leases:

1.Description of lease arrangements: None.

As of September 30, 2001

(Amounts in Thousands)

	2001 Asset Category 1	2001 Asset Category 2	2001 Asset Category 3	2001 Total	2000 Total
2. Future Projected Receipts, Capital Leases:					
Fiscal Year					
2002	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2003	0	0	0	0	0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0
After 5 Years	0	0	0	0	0
Total Future Capital Lease Receivables	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

B.Operating Leases:

1.Description of lease arrangements: None.

NOTES TO THE PRINCIPAL STATEMENTS

As of September 30, 2001

(Amounts in Thousands)

	2001 Asset Category 1	2001 Asset Category 2	2001 Asset Category 3	2001 Total	2000 Total
2. Future Projected Receipts, Fiscal Year:					
2002	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2003	0	0	0	0	0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0
After 5 Years	0	0	0	0	0
Total Future Capital Lease Receivables	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

NOTE 24.B. OTHER DISCLOSURES:

1. Eliminating Entries

Although the NWCF prepared financial statements from its books and records, the financial statements subsequently were adjusted as part of the DoD and federal-wide financial statement consolidation process. The effects of these "buyer-seller" adjustments can be demonstrated by comparing the Pre-Adjustment NWCF Balance for specific lines of the financial statements with the Published 2001 Combined Balance (before eliminations) for the same lines. The Pre-Adjustment balances represent amounts generated from official accounting records, summarized in trial balances of the NWCF activities, and used to prepare financial statements for FY 2000 and FY 2001 provided to the NWCF Management Commands for validation of these balances against their official records. The Published 2001 Combined balances reflect primarily adjustments made in preparation for and before making eliminating entries. Included in these balances also are some accruals made after the Management Commands received the financial statements for validation.

2. New Systems Implementation

A number of NWCF Activity Groups are implementing new accounting systems (e.g., DIFMS, DWAS, ERP/SAP and Oracle Financials) in a concerted effort to bring the entire NWCF into compliance with the CFO Act and other statutory requirements, FASAB standards, and the DoD FMR. During this transition phase, subsidiary accounts and related supporting records do not always agree with general ledger accounts in the new accounting systems.

3. Abnormal Balances

DFAS Arlington required balances in undistributed and unmatched collections and disbursements to be reported against accounts receivable and accounts payable, respectively. A memorandum from DFAS Arlington, dated 1 March 2001, formalized guidance regarding negative accounts payable and accounts receivable resulting from adjustments for undistributed disbursements and collections.

4. Cumulative Results of Operations – Deferred.

Included in the NWCF's Net Position, Cumulative Results of Operations are amounts that were approved by USD(C) as a deferral for recovery from, or return to, customers in later fiscal years' billing rates. As of 30 September 2001, the total NWCF amount of CRO-Deferred was (\$406,314) thousand. This amount primarily consists of system development costs incurred during FY 1992-FY 1998 totaling \$389,533 thousand by the Joint Logistics Service Center (JLSC). With the closure of JLSC, USD(C) directed in August 1998 that this JLSC system development cost be deferred from cost recovery. As instructed by the USD(C), DON distributed this amount among affected NWCF activities. The following table displays all CRO – Deferred amounts through FY 2001:

(Amounts in Thousands)	FY 2000 CRO Deferred Amounts	FY 2001 Change	FY 2001 CRO Deferred Amounts
JLSC	\$ (389,533)	\$ 0	\$ (389,533)
Depreciation	(4,569)	0	(4,569)
Explosive Incident	(4,829)	0	(4,829)
Material and Supplies – BRAC	(7,383)	0	(7,383)
Total	\$ (406,314)	\$ 0	\$ (406,314)

5. Residual Accounting

There was residual accounting in both the Ordnance Activity Group and the Naval Computer and Telecommunications Command (NCTC) portion of the Information Services Activity Group, and each prepared NWCF financial statements and related notes for FY 2001, which are included in this report.

6. Direct Appropriations

For fiscal year 2001, the NWCF received direct appropriations from the Congress to finance increased electricity and natural gas cost, principally in the California area. These funds totaled \$145,530 thousand and were allocated to the Base Support Business Line and Public Works Center Activity Group. The Statement of Budgetary Resources and Statement of Financing provides information on the status of these appropriation funds.

7. Other Information

For information regarding Intragovernmental Eliminations, refer to the Required Supplementary Information section of this AFS report.

NAVY WORKING CAPITAL FUND

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS



DEPARTMENT OF THE NAVY

Department of Defense Navy Working Capital Fund CONSOLIDATING BALANCE SHEET

As of September 30, 2001

(\$ in Thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps	Ordnance	Transportation
ASSETS					
Intragovernmental:					
Fund Balance with Treasury	\$ 428,012	\$ 71,649	\$ (13,355)	\$ 194,701	\$ 231,400
Investments	0	0	0	0	0
Accounts Receivable	239,793	110,302	17,091	0	81,094
Other Assets	27	0	14	0	0
Total Intragovernmental Assets	\$ 667,832	\$ 181,951	\$ 3,750	\$ 194,701	\$ 312,494
Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Accounts Receivable	1,129	719	125	590	168
Loans Receivable	0	0	0	0	0
Inventory and Related Property	252,625	778,711	38,912	1,322	28,598
General Property, Plant and Equipment	717,108	342,464	54,129	578	19,169
Other Assets	107,151	9,497	0	870	876,570
TOTAL ASSETS	\$ 1,745,845	\$ 1,313,342	\$ 96,916	\$ 198,061	\$ 1,236,999
LIABILITIES					
Intragovernmental:					
Accounts Payable	\$ 48,650	\$ 128,827	\$ 6,681	\$ 0	\$ 86,225
Debt	0	0	0	0	888,306
Environmental Liabilities	0	0	0	0	0
Other Liabilities	30,851	3,227	713	0	5,061
Total Intragovernmental Liabilities	\$ 79,501	\$ 132,054	\$ 7,394	\$ 0	\$ 979,592
Accounts Payable	\$ 50,655	\$ 23,839	\$ (1,069)	\$ 92,583	\$ 456,475
Military Retirement Benefits and Other					
Employment-Related	0	0	22,313	0	0
Actuarial Liabilities					
Environmental Liabilities	0	0	0	0	0
Loan Guarantee Liability	0	0	0	0	0
Other Liabilities	385,679	703,077	7,972	14,271	37,651
TOTAL LIABILITIES	\$ 515,835	\$ 858,970	\$ 36,610	\$ 106,854	\$ 1,473,718
NET POSITION					
Unexpended Appropriations	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	1,230,010	454,372	60,306	91,207	(236,719)
TOTAL NET POSITION	\$ 1,230,010	\$ 454,372	\$ 60,306	\$ 91,207	\$ (236,719)
TOTAL LIABILITIES AND NET POSITION	\$ 1,745,845	\$ 1,313,342	\$ 96,916	\$ 198,061	\$ 1,236,999

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense Navy Working Capital Fund CONSOLIDATING BALANCE SHEET

As of September 30, 2001

(\$ in Thousands)

	<u>Base Support</u>	<u>Information Services</u>	<u>Research & Development</u>	<u>Supply Management</u>	<u>Component Level</u>
ASSETS					
Intragovernmental:					
Fund Balance with Treasury	\$ 103,333	\$ 888	\$ 409,885	\$ 373,258	\$ (595,368)
Investments	0	0	0	0	0
Accounts Receivable	218,532	11,628	317,082	195,976	0
Other Assets	0	0	84	29,406	0
Total Intragovernmental Assets	\$ 321,865	\$ 12,516	\$ 727,051	\$ 598,640	\$ (595,368)
Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Accounts Receivable	31,081	1,155	36,195	32,705	5,870
Loans Receivable	0	0	0	0	0
Inventory and Related Property	82,786	0	385,243	16,317,717	0
General Property, Plant and Equipment	640,068	3,138	1,984,297	390,287	0
Other Assets	12,857	5	39,916	326,554	0
TOTAL ASSETS	\$ 1,088,657	\$ 16,814	\$ 3,172,702	\$ 17,665,903	\$ (589,498)
LIABILITIES					
Intragovernmental:					
Accounts Payable	\$ 98,560	\$ 5,415	\$ 165,998	\$ 219,738	\$ 1
Debt	0	0	0	0	0
Environmental Liabilities	0	0	0	0	0
Other Liabilities	5,088	3,271	69,500	1,422	0
Total Intragovernmental Liabilities	\$ 103,648	\$ 8,686	\$ 235,498	\$ 221,160	\$ 1
Accounts Payable	\$ 87,446	\$ 3,150	\$ 819,403	\$ 907,357	\$ (1,398,448)
Military Retirement Benefits and Other Employment-Related	0	0	0	0	1,350,338
Actuarial Liabilities					
Environmental Liabilities	0	0	0	0	0
Loan Guarantee Liability	0	0	0	0	0
Other Liabilities	309,258	12,244	2,028,123	596,101	(48,783)
TOTAL LIABILITIES	\$ 500,352	\$ 24,080	\$ 3,083,024	\$ 1,724,618	\$ (96,892)
NET POSITION					
Unexpended Appropriations	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	588,305	(7,266)	89,678	15,941,285	(492,606)
TOTAL NET POSITION	\$ 588,305	\$ (7,266)	\$ 89,678	\$ 15,941,285	\$ (492,606)
TOTAL LIABILITIES AND NET POSITION	\$ 1,088,657	\$ 16,814	\$ 3,172,702	\$ 17,665,903	\$ (589,498)

Department of Defense Navy Working Capital Fund CONSOLIDATING BALANCE SHEET

As of September 30, 2001

(\$ in Thousands)

	<u>2001 Combined</u>	<u>Eliminations</u>	<u>2001 Consolidated</u>	<u>2000 Consolidated</u>
ASSETS				
Intragovernmental:				
Fund Balance with Treasury	\$ 1,204,403	\$ 0	\$ 1,204,403	\$ 1,473,779
Investments	0	0	0	0
Accounts Receivable	1,191,498	297,149	894,349	583,425
Other Assets	29,531	31	29,500	17,657
Total Intragovernmental Assets	\$ 2,425,432	\$ 297,180	\$ 2,128,252	\$ 2,074,861
Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0
Accounts Receivable	109,737	0	109,737	650,124
Loans Receivable	0	0	0	0
Inventory and Related Property	17,885,914	0	17,885,914	16,870,713
General Property, Plant and Equipment	4,151,238	0	4,151,238	4,118,173
Other Assets	1,373,420	0	1,373,420	1,377,027
TOTAL ASSETS	\$ 25,945,741	\$ 297,180	\$ 25,648,561	\$ 25,090,898
LIABILITIES				
Intragovernmental:				
Accounts Payable	\$ 760,095	\$ 297,149	\$ 462,946	\$ 985,695
Debt	888,306	0	888,306	967,512
Environmental Liabilities	0	0	0	0
Other Liabilities	119,133	31	119,102	76,152
Total Intragovernmental Liabilities	\$ 1,767,534	\$ 297,180	\$ 1,470,354	\$ 2,029,359
Accounts Payable	\$ 1,041,391	\$ 0	\$ 1,041,391	\$ (1,034,979)
Military Retirement Benefits and Other Employment-Related	1,372,651	0	1,372,651	1,223,914
Actuarial Liabilities				
Environmental Liabilities	0	0	0	0
Loan Guarantee Liability	0	0	0	0
Other Liabilities	4,045,593	0	4,045,593	3,781,870
TOTAL LIABILITIES	\$ 8,227,169	\$ 297,180	\$ 7,929,989	\$ 6,000,614
NET POSITION				
Unexpended Appropriations	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	17,718,572	0	17,718,572	19,090,734
TOTAL NET POSITION	\$ 17,718,572	\$ 0	\$ 17,718,572	\$ 19,090,734
TOTAL LIABILITIES AND NET POSITION	\$ 25,945,741	\$ 297,180	\$ 25,648,561	\$ 25,090,898

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense Navy Working Capital Fund CONSOLIDATING STATEMENT OF NET COST

For the Year Ended September 30, 2001

(\$ in Thousands)

	<u>2001 Combined</u>	<u>Eliminations</u>	<u>2001 Consolidated</u>	<u>2000 Consolidated</u>
Program Costs				
A. Depot Maintenance, Shipyards				
Intragovernmental	\$ 584,184	\$ (97,122)	\$ 487,062	\$ 503,903
With the Public	1,576,165	0	1,576,165	554,467
Total Program Cost	\$ 2,160,349	\$ (97,122)	\$ 2,063,227	\$ 1,058,370
(Less: Earned Revenue)	(2,031,083)	16,359	(2,014,724)	(2,042,313)
Net Program Costs	\$ 129,266	\$ (80,763)	\$ 48,503	\$ (983,943)
B. Depot Maintenance, Aviation				
Intragovernmental	\$ 979,694	\$ (356,187)	\$ 623,507	\$ 506,546
With the Public	1,138,762	0	1,138,762	47,657
Total Program Cost	\$ 2,118,456	\$ (356,187)	\$ 1,762,269	\$ 608,203
(Less: Earned Revenue)	(1,807,951)	897,435	(910,516)	(732,543)
Net Program Costs	\$ 310,505	\$ 541,248	\$ 851,753	\$ (124,340)
C. Depot Maintenance, Marine Corps				
Intragovernmental	\$ 278,864	\$ (65,971)	\$ 212,893	\$ 56,287
With the Public	(76,501)	0	(76,501)	147,715
Total Program Cost	\$ 202,363	\$ (65,971)	\$ 136,392	\$ 204,002
(Less: Earned Revenue)	(209,084)	13,424	(195,660)	(215,592)
Net Program Costs	\$ (6,721)	\$ (52,547)	\$ (59,268)	\$ (11,590)
D. Ordnance				
Intragovernmental	\$ 364	\$ 0	\$ 364	\$ 40,673
With the Public	2,779	0	2,779	277,670
Total Program Cost	\$ 3,143	\$ 0	\$ 3,143	\$ 318,343
(Less: Earned Revenue)	(2,393)	0	(2,393)	(244,878)
Net Program Costs	\$ 750	\$ 0	\$ 750	\$ 73,465
E. Transportation				
Intragovernmental	\$ 680,008	\$ (91,415)	\$ 588,593	\$ 217,769
With the Public	1,107,829	0	1,107,829	267,374
Total Program Cost	\$ 1,787,837	\$ (91,415)	\$ 1,696,422	\$ 485,143
(Less: Earned Revenue)	(1,337,799)	0	(1,337,799)	(1,282,949)
Net Program Costs	\$ 450,038	\$ (91,415)	\$ 358,623	\$ (797,806)
F. Base Support				
Intragovernmental	\$ 249,518	\$ (33,391)	\$ 216,127	\$ 220,640
With the Public	1,447,582	0	1,447,582	904,440
Total Program Cost	\$ 1,697,100	\$ (33,391)	\$ 1,663,709	\$ 1,125,080
(Less: Earned Revenue)	(1,513,651)	31,034	(1,482,617)	(1,415,765)
Net Program Costs	\$ 183,449	\$ (2,357)	\$ 181,092	\$ (290,685)

Department of Defense Navy Working Capital Fund CONSOLIDATING STATEMENT OF NET COST

Year Ended September 30, 2001

(\$ in Thousands)

	2001 Combined	Eliminations	2001 Consolidated	2000 Consolidated
G. Information Services				
Intragovernmental	\$ 44,522	\$ (5,683)	\$ 38,839	\$ 64,040
With the Public	36,112	0	36,112	40,266
Total Program Cost	\$ 80,634	\$ (5,683)	\$ 74,951	\$ 104,306
(Less: Earned Revenue)	(109,677)	54,802	(54,875)	(117,467)
Net Program Costs	\$ (29,043)	\$ 49,119	\$ 20,076	\$ (13,161)
H. Research & Development				
Intragovernmental	\$ 1,389,954	\$ (100,182)	\$ 1,289,772	\$ 1,317,237
With the Public	7,903,542	0	7,903,542	2,811,381
Total Program Cost	\$ 9,293,496	\$ (100,182)	\$ 9,193,314	\$ 4,128,618
(Less: Earned Revenue)	(8,016,777)	285,553	(7,731,224)	(2,534,619)
Net Program Costs	\$ 1,276,719	\$ 185,371	\$ 1,462,090	\$ 1,593,999
I. Supply Management				
Intragovernmental	\$ 3,819,162	\$ (1,087,226)	\$ 2,731,936	\$ 2,665,389
With the Public	1,150,883	0	1,150,883	2,488,203
Total Program Cost	\$ 4,970,045	\$ (1,087,226)	\$ 3,882,819	\$ 5,153,592
(Less: Earned Revenue)	(5,785,804)	538,570	(5,247,234)	(5,138,344)
Net Program Costs	\$ (815,759)	\$ (548,656)	\$ (1,364,415)	\$ 15,248
J. Component Level				
Intragovernmental	\$ 0	\$ 0	\$ 0	\$ 0
With the Public	149,042	0	149,042	439,633
Total Program Cost	\$ 149,042	\$ 0	\$ 149,042	\$ 439,633
(Less: Earned Revenue)	0	0	0	0
Net Program Costs	\$ 149,042	\$ 0	\$ 149,042	\$ 439,633
K. Total Program Costs				
Intragovernmental	\$ 8,026,270	\$ (1,837,177)	\$ 6,189,093	\$ 5,646,484
With the Public	14,436,195	0	14,436,194	7,978,806
Total Program Cost	\$ 22,462,465	\$ (1,837,177)	\$ 20,625,287	\$ 13,625,290
(Less: Earned Revenue)	(20,814,219)	1,837,177	(18,977,041)	(13,724,470)
Net Program Costs	\$ 1,648,246	\$ 0	\$ 1,648,246	\$ (99,180)
Costs Not Assigned to Programs	0	0	0	0
(Less: Earned Revenue not attributable to Programs)	0	0	0	0
Net Cost of Operations	\$ 1,648,246	\$ 0	\$ 1,648,246	\$ (99,180)

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense Navy Working Capital Fund

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

Year Ended September 30, 2001

(\$ in Thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps	Ordnance	Transportation
Net Cost of Operations	\$ 129,266	\$ 310,505	\$ (6,721)	\$ 750	\$ 450,038
Financing Sources (other than exchange revenues)					
Appropriations Used	0	0	0	0	0
Taxes and Other Nonexchange Revenue	0	0	0	1,081	0
Donations - Nonexchange Revenue	0	0	0	0	0
Imputed Financing	103,251	56,225	7,235	364	24,750
Transfers - In	0	0	0	0	0
Transfers - Out	0	0	0	0	0
Other	323,737	409,935	0	27,387	219,319
Total Financing Sources (other than Exchange Revenues)	\$ 426,988	\$ 466,160	\$ 7,235	\$ 28,832	\$ 244,069
Net Results of Operations	\$ 297,722	\$ 155,655	\$ 13,956	\$ 28,082	\$ (205,969)
Prior Period Adjustments	(2,998)	0	3,441	12,556	0
Net Change in Cumulative Results of Operations	\$ 294,724	\$ 155,655	\$ 17,397	\$ 40,638	\$ (205,969)
Increase (Decrease) in Unexpended Appropriations	0	0	0	0	0
Change in Net Position	\$ 294,724	\$ 155,655	\$ 17,397	\$ 40,638	\$ (205,969)
Net Position-Beginning of the Period	935,286	298,717	42,909	50,569	30,750
Net Position-End of the Period	\$ 1,230,010	\$ 454,372	\$ 60,306	\$ 91,207	\$ (236,719)

Department of Defense Navy Working Capital Fund CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

Year Ended September 30, 2001

(\$ in Thousands)

	<u>Base Support</u>	<u>Information Services</u>	<u>Research & Development</u>	<u>Supply Management</u>	<u>Component Level</u>
Net Cost of Operations	\$ 183,449	\$ (29,043)	\$ 1,276,719	\$ (815,759)	\$ 149,042
Financing Sources (other than exchange revenues)					
Appropriations Used	145,530	0	0	0	0
Taxes and Other Nonexchange Revenue	0	0	10,271	0	0
Donations - Nonexchange Revenue	0	0	0	0	0
Imputed Financing	40,345	6,161	216,727	18,335	0
Transfers - In	0	0	(5,976)	43,754	0
Transfers - Out	0	(5,976)	0	(7,567)	0
Other	11,173	38,897	1,110,238	1,259,695	(2,629,132)
Total Financing Sources (other than Exchange Revenues)	\$ 197,048	\$ 39,082	\$ 1,343,212	\$ 1,314,217	\$ (2,629,132)
Net Results of Operations	\$ 13,599	\$ 68,125	\$ 66,493	\$ 2,129,976	\$ (2,778,174)
Prior Period Adjustments	(2,222)	66	68	(1,172,542)	0
Net Change in Cumulative Results of Operations	\$ 11,377	\$ 68,191	\$ 66,561	\$ 957,434	\$ (2,778,174)
Increase (Decrease) in Unexpended Appropriations	0	0	0	0	0
Change in Net Position	\$ 11,377	\$ 68,191	\$ 66,561	\$ 957,434	\$ (2,778,174)
Net Position-Beginning of the Period	576,928	(75,457)	23,117	14,983,851	2,285,568
Net Position-End of the Period	\$ 588,305	\$ (7,266)	\$ 89,678	\$ 15,941,285	\$ (492,606)

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense Navy Working Capital Fund

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

Year Ended September 30, 2001

(\$ in Thousands)

	<u>2001 Combined</u>	<u>Eliminations</u>	<u>2001 Consolidated</u>	<u>2000 Consolidated</u>
Net Cost of Operations	\$ 1,648,246	\$ 0	\$ 1,648,246	\$ (99,183)
Financing Sources (other than exchange revenues)				
Appropriations Used	145,530	0	145,530	0
Taxes and Other Nonexchange Revenue	11,352	0	11,352	0
Donations - Nonexchange Revenue	0	0	0	0
Imputed Financing	473,393	0	473,393	408,766
Transfers - In	49,730	5,976	43,754	77,193
Transfers - Out	(13,543)	(5,976)	(7,567)	(418,821)
Other	771,249	0	771,249	3,716,827
Total Financing Sources (other than Exchange Revenues)	\$ 1,437,711	\$ 0	\$ 1,437,711	\$ 3,783,965
Net Results of Operations	\$ (210,535)	\$ 0	\$ (210,535)	\$ 3,883,148
Prior Period Adjustments	(1,161,631)	0	(1,161,631)	(2,697,098)
Net Change in Cumulative Results of Operations	\$ (1,372,166)	\$ 0	\$ (1,372,166)	\$ 1,186,050
Increase (Decrease) in Unexpended Appropriations	0	0	0	0
Change in Net Position	\$ (1,372,166)	\$ 0	\$ (1,372,166)	\$ 1,186,050
Net Position-Beginning of the Period	19,090,738	0	19,090,738	17,904,688
Net Position-End of the Period	\$ 17,718,572	\$ 0	\$ 17,718,572	\$ 19,090,738

Department of Defense
Navy Working Capital Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2001

(\$ in Thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps	Ordnance
BUDGETARY RESOURCES				
Budget Authority	\$ 76,574	\$ 53,842	\$ 3,500	\$ 0
Unobligated Balance - Beginning of Period	(91,892)	269,655	54,716	(5,698)
Net Transfers Prior-Year Balance, Actual	0	0	0	0
Spending Authority from Offsetting Collections	3,077,486	1,950,158	202,499	(134,514)
Adjustments	0	0	(2,123)	0
Total Budgetary Resources	\$ 3,062,168	\$ 2,273,655	\$ 258,592	\$ (140,212)

STATUS OF BUDGETARY RESOURCES

Obligations Incurred	\$ 2,631,321	\$ 1,920,887	\$ 177,894	\$ (328,431)
Unobligated Balances - Available	430,847	362,768	80,698	188,219
Unobligated Balances - Not Available	0	0	0	0
Total Status of Budgetary Resources	\$ 3,062,168	\$ 2,273,655	\$ 258,592	\$ (140,212)

OUTLAYS

Obligations Incurred	\$ 2,631,321	\$ 1,920,887	\$ 177,894	\$ (328,431)
Less: Spending Authority from Offsetting Collections and Adjustments	(3,077,486)	(1,950,158)	(202,499)	134,514
Obligated Balance, Net - Beginning of Period	753,409	783,570	(32,837)	237,285
Obligated Balance Transferred, Net	0	0	0	0
Less: Obligated Balance, Net - End of Period	(172,802)	(169,909)	45,996	(42,828)
Total Outlays	\$ 134,442	\$ 584,390	\$ (11,446)	\$ 540

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense
Navy Working Capital Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2001

(\$ in Thousands)

	<u>Transportation</u>	<u>Base Support</u>	<u>Information Services</u>	<u>Research & Development</u>
BUDGETARY RESOURCES				
Budget Authority	\$ 7,300	\$ 166,170	\$ 500	\$ 139,210
Unobligated Balance - Beginning of Period	142,951	124,976	27,181	503,525
Net Transfers Prior-Year Balance, Actual	0	0	0	0
Spending Authority from Offsetting Collections	1,456,310	2,000,704	36,761	7,808,496
Adjustments	(78,012)	0	0	0
Total Budgetary Resources	\$ 1,528,549	\$ 2,291,850	\$ 64,442	\$ 8,451,231
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	\$ 1,556,290	\$ 2,141,890	\$ 4,902	\$ 7,137,908
Unobligated Balances - Available	(27,741)	149,960	59,540	1,313,323
Unobligated Balances - Not Available	0	0	0	0
Total Status of Budgetary Resources	\$ 1,528,549	\$ 2,291,850	\$ 64,442	\$ 8,451,231
OUTLAYS				
Obligations Incurred	\$ 1,556,290	\$ 2,141,890	\$ 4,902	\$ 7,137,908
Less: Spending Authority from Offsetting Collections and Adjustments	(1,456,310)	(2,000,704)	(36,761)	(7,808,490)
Obligated Balance, Net - Beginning of Period	282,547	103,449	61,799	350,678
Obligated Balance Transferred, Net	0	0	0	0
Less: Obligated Balance, Net - End of Period	(415,244)	(118,473)	(22,610)	354,815
Total Outlays	\$ (32,717)	\$ 126,162	\$ 7,330	\$ 14,905

**Department of Defense
Navy Working Capital Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES**

For the Year Ended September 30, 2001

(\$ in Thousands)

	<u>Supply Management</u>	<u>Component Level</u>	<u>2001 Combined Total</u>	<u>2000 Combined Total</u>
BUDGETARY RESOURCES				
Budget Authority	\$ 311,396	\$ 0	\$ 758,492	\$ 563,355
Unobligated Balance - Beginning of Period	78,249	985,493	2,089,156	2,462,318
Net Transfers Prior-Year Balance, Actual	43,700	0	43,700	61,600
Spending Authority from Offsetting Collections	5,715,718	(505,297)	21,608,321	20,653,232
Adjustments	0	0	(80,135)	(132,935)
Total Budgetary Resources	\$ 6,149,063	\$ 480,196	\$ 24,419,534	\$ 23,607,570

STATUS OF BUDGETARY RESOURCES

Obligations Incurred	\$ 6,022,097	\$ 48,119	\$ 21,312,877	\$ 21,518,414
Unobligated Balances - Available	126,966	432,077	3,106,657	2,089,158
Unobligated Balances - Not Available	0	0	0	(2)
Total Status of Budgetary Resources	\$ 6,149,063	\$ 480,196	\$ 24,419,534	\$ 23,607,570

OUTLAYS

Obligations Incurred	\$ 6,022,097	\$ 48,119	\$ 21,312,877	\$ 21,518,414
Less: Spending Authority from Offsetting Collections and Adjustments	(5,715,718)	505,297	(21,608,321)	(20,653,232)
Obligated Balance, Net - Beginning of Period	2,804,076	(1,693,114)	3,630,862	2,444,895
Obligated Balance Transferred, Net	0	0	0	0
Less: Obligated Balance, Net - End of Period	(3,088,289)	1,208,239	(2,421,105)	(3,630,862)
Total Outlays	\$ 22,166	\$ 68,541	\$ 914,313	\$ (320,785)

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense Navy Working Capital Fund COMBINING STATEMENT OF FINANCING

For the Year Ended September 30, 2001

(\$ in Thousands)

	<u>Depot Maintenance Shipyards</u>	<u>Depot Maintenance Aviation</u>	<u>Depot Maintenance Marine Corps</u>	<u>Ordnance</u>
1. OBLIGATIONS AND NONBUDGETARY RESOURCES				
A. Obligations Incurred	\$ 2,631,321	\$ 1,920,887	\$ 177,894	\$ (328,431)
B. Less: Spending Authority for Offsetting Collections and Adjustments	(3,077,486)	(1,950,158)	(202,499)	134,514
C. Donations Not in the Entity's Budget	0	0	0	0
D. Financing Imputed for Cost Subsidies	103,251	56,225	7,235	384
E. Transfers-In (Out) - Financing	0	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0	0
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0	0
I. Other	0	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	\$ (342,914)	\$ 26,954	\$ (17,370)	\$ (193,553)
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS				
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received - (Increases)/Decreases	\$ 858,663	\$ 1,202,770	\$ 8,007	\$ 188,646
B. Change in Unfilled Customer Orders	(170,266)	22,101	3,280	(4,794)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(251,525)	(978,675)	(4,013)	10,451
D. Financing Sources that Fund Costs of Prior Periods	0	0	(305)	0
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0
G. Other - (Increases)/Decreases	0	0	0	0
H. Total Resources That Do Not Fund Net Costs of Operations	\$ 436,872	\$ 246,196	\$ 6,969	\$ 194,303

**Department of Defense
Navy Working Capital Fund
COMBINING STATEMENT OF FINANCING**

For the Year Ended September 30, 2001

(\$ in Thousands)

	Depot Maintenance <u>Shipyards</u>	Depot Maintenance <u>Aviation</u>	Depot Maintenance <u>Marine Corps</u>	<u>Ordnance</u>
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES				
A. Depreciation and Amortization	\$ 35,308	\$ 37,355	\$ 3,680	\$ 0
B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0	0
D. Loss of Disposition of Assets	0	0	0	0
E. Other - Increases/(Decreases)	0	0	0	0
F. Total Costs That Do Not Require Resources	<u>\$ 35,308</u>	<u>\$ 37,355</u>	<u>\$ 3,680</u>	<u>\$ 0</u>
4. FINANCING SOURCES YET TO BE PROVIDED	\$ 0	\$ 0	\$ 0	\$ 0
5. NET COST OF OPERATIONS	<u>\$ 129,266</u>	<u>\$ 310,505</u>	<u>\$ (6,721)</u>	<u>\$ 750</u>

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense
Navy Working Capital Fund
COMBINING STATEMENT OF FINANCING

For the Year Ended September 30, 2001
(\$ in Thousands)

	<u>Transportation</u>	<u>Base Support</u>	<u>Information Services</u>	<u>Research & Development</u>
1. OBLIGATIONS AND NONBUDGETARY RESOURCES				
A. Obligations Incurred	\$ 1,556,289	\$ 2,141,890	\$ 4,902	\$ 7,137,908
B. Less: Spending Authority for Offsetting Collections and Adjustments	(1,456,310)	(2,000,704)	(36,761)	(7,808,496)
C. Donations Not in the Entity's Budget	0	0	0	0
D. Financing Imputed for Cost Subsidies	24,750	40,345	6,162	216,727
E. Transfers-In (Out) - Financing	0	0	0	0
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0	0
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0	0
I. Other	0	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	<u>\$ 124,729</u>	<u>\$ 181,531</u>	<u>\$ (25,697)</u>	<u>\$ (453,861)</u>
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS				
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received - (Increases)/Decreases	\$ 279,421	\$ 50,817	\$ 16,358	\$ 1,002,590
B. Change in Unfilled Customer Orders	(1,981)	(74,269)	(20,399)	469,500
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	45,479	9,314	(1,025)	157,416
D. Financing Sources that Fund Costs of Prior Periods	0	0	0	0
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0
G. Other - (Increases)/Decreases	0	0	0	0
H. Total Resources That Do Not Fund Net Costs of Operations	<u>\$ (322,919)</u>	<u>\$ (14,138)</u>	<u>\$ (5,066)</u>	<u>\$ 1,629,506</u>

Department of Defense
Navy Working Capital Fund
COMBINING STATEMENT OF FINANCING

For the Year Ended September 30, 2001

(\$ in Thousands)

	<u>Transportation</u>	<u>Base Support</u>	<u>Information Services</u>	<u>Research & Development</u>
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES				
A. Depreciation and Amortization	\$ 2,390	\$ 16,056	\$ 1,720	\$ 101,074
B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	0	0	0	0
D. Loss of Disposition of Assets	0	0	0	0
E. Other - Increases/(Decreases)	0	0	0	0
F. Total Costs That Do Not Require Resources	\$ 2,390	\$ 16,056	\$ 1,720	\$ 101,074
4. FINANCING SOURCES YET TO BE PROVIDED	\$ 0	\$ 0	\$ 0	\$ 0
5. NET COST OF OPERATIONS	\$ 450,038	\$ 183,449	\$ (29,043)	\$ 1,276,719

SUPPORTING CONSOLIDATING/COMBINING STATEMENTS

Department of Defense Navy Working Capital Fund COMBINING STATEMENT OF FINANCING

For the Year Ended September 30, 2001

(\$ in Thousands)

	<u>Supply Management</u>	<u>Component Level</u>	<u>2001 Combined Total</u>	<u>2000 Combined Total</u>
1. OBLIGATIONS AND NONBUDGETARY RESOURCES				
A. Obligations Incurred	\$ 6,022,097	\$ 48,119	\$ 21,312,876	\$ 21,518,414
B. Less: Spending Authority for Offsetting Collections and Adjustments	(5,715,718)	505,297	(21,608,321)	(20,653,232)
C. Donations Not in the Entity's Budget	0	0	0	0
D. Financing Imputed for Cost Subsidies	18,335	0	473,394	408,766
E. Transfers-In (Out) - Financing	(7,512)	0	(7,512)	88
F. Less: Exchange Revenue Not in the Entity's Budget	0	0	0	(295,461)
G. Nonexchange Revenue Not in the Entity's Budget	0	0	0	0
H. Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget	0	0	0	0
I. Other	0	0	0	0
J. Total Obligations as Adjusted and Nonbudgetary Resources	\$ 317,202	\$ 553,416	\$ 170,437	\$ 978,575
2. RESOURCES THAT DO NOT FUND NET COST OF OPERATIONS				
A. Change in Amount of Goods, Services, and Benefits Ordered but Not Yet Received - (Increases)/Decreases	\$ (804,861)	\$ 0	\$ 2,802,411	\$ (984,254)
B. Change in Unfilled Customer Orders	(8,554)	0	214,618	(316,547)
C. Costs Capitalized on the Balance Sheet - (Increases)/Decreases	(1,447,560)	(553,416)	(3,013,554)	(1,476,123)
D. Financing Sources that Fund Costs of Prior Periods	0	0	(305)	(14,946)
E. Collections that Decrease Credit Program Receivables or Increase Credit Program Liabilities	0	0	0	0
F. Adjustments for Trust Fund Outlays that Do Not Affect Net Cost	0	0	0	0
G. Other - (Increases)/Decreases	0	0	0	0
H. Total Resources That Do Not Fund Net Costs of Operations	\$ (2,260,975)	\$ (553,416)	\$ 3,170	\$ (2,791,870)

**Department of Defense
Navy Working Capital Fund
COMBINING STATEMENT OF FINANCING**

For the Year Ended September 30, 2001

(\$ in Thousands)

	<u>Supply Management</u>	<u>Component Level</u>	<u>2001 Combined Total</u>	<u>2000 Combined Total</u>
3. COMPONENTS OF COSTS OF OPERATIONS THAT DO NOT REQUIRE OR GENERATE RESOURCES				
A. Depreciation and Amortization	\$ 13,088	\$ 0	\$ 210,671	\$ 205,930
B. Bad Debts Related to Uncollectable Non-Credit Reform Receivables	0	0	0	0
C. Revaluation of Assets and Liabilities - Increases/(Decreases)	1,114,926	0	1,114,926	1,394,793
D. Loss of Disposition of Assets	0	0	0	0
E. Other - Increases/(Decreases)	0	0	0	(4,272)
F. Total Costs That Do Not Require Resources	\$ 1,128,014	\$ 0	\$ 1,325,597	\$ 1,596,451
4. FINANCING SOURCES YET TO BE PROVIDED	\$ 0	\$ 149,042	\$ 149,042	\$ 117,663
5. NET COST OF OPERATIONS	\$ (815,759)	\$ 149,042	\$ 1,648,246	\$ (99,181)

NAVY WORKING CAPITAL FUND

REQUIRED SUPPLEMENTARY INFORMATION



**Department of the Navy Working Capital Fund
Required Supplementary Information
DON GENERAL PROPERTY, PLANT, AND EQUIPMENT
REAL PROPERTY DEFERRED SUSTAINMENT AMOUNTS**

Year Ended September 30, 2001

(\$ in Millions)

Property		FY2001			
	Restoration Prior	Annual Sustainment			Restoration Ending
		Required	Actual	Difference	
Total	-	\$ 392	\$ 320	\$ 72	

Property	Annual Deferred Sustainment Trend				
	FY2001	FY2002	FY2003	FY2004	FY2005
Total	\$ 72	-	-	-	-

Narrative Statement:

Navy Working Capital Fund facilities are transitioning from Real Property Maintenance to Facility Sustainment via use of the new OSD Facility Sustainment Model. This is the first financial statement utilizing this methodology. The methodology in the draft DoD Financial Regulation, Volume 6B, Chapter 12, June 2001 was utilized to calculate the deferred amounts. FY2001 facility investments were programmed, budgeted and executed, before application of the Facility Sustainment Model, when the metrics of real property maintenance were utilized.

The quality of the data used as Facility Sustainment Model input continues to undergo quality checks to ensure it's accuracy in facility type, facility units of measure and applicable funding source.

Data is shown as total property data versus buildings and structures data due to the Facility Sustainment Model output not breaking out the total requirements into subcategories.

The Facility Sustainment Model calculates facility sustainment investment based on the Navy property inventory, facility type, key units of measure, geographic location and industry standards. The variables are constantly being examined to reduce errors and disconnects for unique Navy facility requirements.

Real Property Condition Information is unavailable awaiting completion of the FY2001 Installation Readiness Report.

The NWCF does not have any material amounts of deferred sustainment for General PP&E Personal Property, Heritage Assets, or Stewardship Land.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule, Part A DoD Intra-governmental Asset Balances (Amounts in Thousands)	Treasury Index:	Funds Balance with Treasury:	Accounts Receivable:	Investments:	Other:
The Judiciary	10		\$ 9		
Executive Office of the President	11		\$ 38		
Department of Agriculture	12		\$ 536		
Department of Commerce	13		\$ 148		
Department of the Interior	14		\$ 1,581		
Department of Justice	15		\$ 3,779		
Navy General Fund	17		\$ 568,594		
Department of State	19		\$ 6,366		
Department of the Treasury	20	\$ 1,204,403	\$ 3,150		
Army General Fund	21		\$ 24,315		
Nuclear Regulatory Commission	31		\$ 22		
Department of Veterans Affairs	36		\$ 1,464		
General Service Administration	47		\$ 512		
National Science Foundation	49		\$ 97		
Air Force General Fund	57		\$ 42,914		
Federal Emergency Management Agency	58		\$ 15		
Environmental Protection Agency	68		\$ 2,002		
Department of Transportation	69		\$ 40,488		
Agency for International Development	72		\$ 690		
Department of Health and Human Services	75		\$ 720		
National Aeronautics and Space Administration	80		\$ 5,851		
Department of Energy	89		\$ 2,525		
Department of Education	91		\$ 28		
US Army Corps of Engineers	96		\$ 1,023		
Other Defense Organizations General Funds	97		\$ 134,017		
Other Defense Organizations Working Capital Funds	97-4930		\$ 46,046		\$ 27,478
Army Working Capital Fund	97-4930.001		\$ 555		\$ 2,022
Navy Working Capital Fund	97-4930.002				
Air Force Working Capital Fund	97-4930.003		\$ 6,864		
Totals:		\$ 1,204,403	\$ 894,349	\$ 0.00	\$ 29,500

DEPARTMENT OF THE NAVY

Schedule, Part B DoD Intra-governmental Entity Liabilities (Amounts in Thousands)	Treasury Index:	Accounts Payable	Debts/Borrowings From Other Agencies:	Other:
Executive Office of the President	11			
Department of Agriculture	12			\$ 728
Department of Commerce	13			\$ 3,112
Department of the Interior	14			\$ 204
Department of Justice	15			\$ 9,750
Department of Labor	16			
Navy General Fund	17	\$ 298,834		\$ 25,386
Department of State	19			\$ 13,611
Department of the Treasury	20		\$ 888,306	\$ 1,360
Army General Fund	21	\$ 10,377		\$ 8
Office of Personnel Management	24			\$ 37,686
Nuclear Regulatory Commission	31			\$ 435
General Service Administration	47			\$ 29
National Science Foundation	49			\$ 75
Air Force General Fund	57	\$ 446		
Federal Emergency Management Agency	58			\$ 31
Environmental Protection Agency	68			\$ 114
Department of Transportation	69			\$ 7,068
Department of Health and Human Services	75			\$ 596
National Aeronautics and Space Administration	80			\$ 14,982
Department of Energy	89			\$ 2,873
Department of Education	91			\$ 37
US Army Corps of Engineers	96	\$ 266		
Other Defense Organizations General Funds	97	\$ 4,566		\$ 1,017
Other Defense Organizations Working Capital Funds	97-4930	\$ 137,118		
Army Working Capital Fund	97-4930.001	\$ 5,771		
Air Force Working Capital Fund	97-4930.003	\$ 5,568		
Totals:		\$462,946	\$ 888,306	\$119,102

REQUIRED SUPPLEMENTARY INFORMATION

Schedule, Part C DoD Intra-governmental and Related Costs (Amounts in Thousands)	Treasury Index:	Earned Revenue:
The Judiciary	10	\$ 13
Executive Office of the President	11	\$ 164
Department of Agriculture	12	\$ 2,668
Department of Commerce	13	\$ 8,667
Department of the Interior	14	\$ 191
Department of Justice	15	\$ 27,476
Navy General Fund	17	\$ 16,270,244
Department of State	19	\$ 25,874
Department of the Treasury	20	\$ 15,958
Army General Fund	21	\$ 131,812
Nuclear Regulatory Commission	31	\$ 423
Department of Veterans Affairs	36	\$ 7,664
General Service Administration	47	\$ 2,603
National Science Foundation	49	\$ 718
Air Force General Fund	57	\$ 265,353
Federal Emergency Management Agency	58	\$ 80
Environmental Protection Agency	68	\$ 3,362
Department of Transportation	69	\$ 66,877
Agency for International Development	72	\$ 4,070
Department of Health and Human Services	75	\$ 7,423
National Aeronautics and Space Administration	80	\$ 44,314
Department of Energy	89	\$ 23,012
US Army Corps of Engineers	96	\$ 56,204
Other Defense Organizations General Funds	97	\$ 980,537
Other Defense Organizations Working Capital Funds	97-4930	\$ 178,379
Army Working Capital Fund	97-4930.001	\$ 13,243
Air Force Working Capital Fund	97-4930.003	\$ 191,330
Totals:		\$ 18,328,659



NAVY WORKING CAPITAL FUND

OTHER ACCOMPANYING INFORMATION



APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE FINANCIAL STATEMENTS

Reporting Entity

Navy Working Capital Fund

Fund/Account Treasury Symbol and Title:

97X4930 002

Navy Working Capital Fund Activity Group Treasury Symbol and Title:

97X4930.NA1 *	Depot Maintenance - Shipyards
97X4930.NA2 *	Depot Maintenance - Aviation
97X4930.NA4 *	Depot Maintenance - Other (Marine Corps)
97X4930.NA3 * ^a	Ordnance
97X4930.ND**	Transportation
97X4930.NE**	Base Support
97X4930.NF**	Information Services
97X4930.NH**	Research and Development
97X4930.NC**	Supply Management

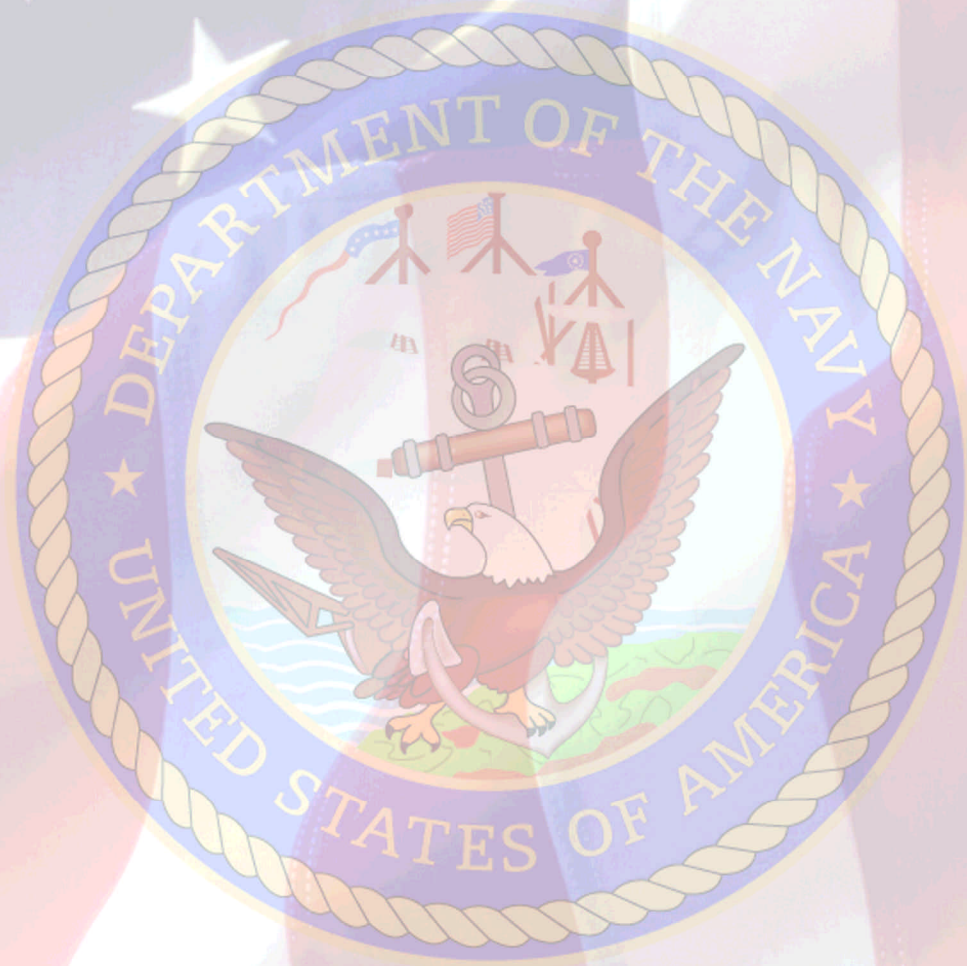
Notes

* - The "*" represents alpha or numeric characters which identify an activity or reporting segment of the activity group.

^a - The Ordnance activity group became a part of the DON General Fund in FY 2000. The Ordnance information included in this report represents residual NWCF accounting for this group.

NAVY WORKING CAPITAL FUND

AUDIT OPINION





INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

February 22, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Endorsement of the Disclaimer of Opinion on the FYs 2001 and 2000
Department of the Navy Working Capital Fund Financial Statements
(Project No. D2001FC-0140)

The Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, requires financial statement audits by the Inspectors General. We delegated to the Naval Audit Service the audit of the FYs 2001 and 2000 Department of the Navy Working Capital Fund Financial Statements.¹ Summarized as follows is the Naval Audit Service disclaimer of opinion on the FYs 2001 and 2000 Department of the Navy Working Capital Fund Financial Statements and the results of our review of the Naval Audit Service audit. The information provided in this memorandum contains reasons for the Naval Audit Service disclaimer. We endorse the disclaimer of opinion expressed by the Naval Audit Service, dated February 13, 2002.

For FY 2001, Office of Management and Budget policy required that the financial statements, except for the Statement of Budgetary Resources, be prepared on a consolidated basis. Consolidation means that intra-agency transactions are to be eliminated. The Statement of Budgetary Resources was required to be prepared on a combined basis. Combination means that component figures are added without eliminating intra-agency transactions. In addition, Office of Management and Budget policy required that the current fiscal year financial statements be presented on a comparative basis with financial statements of the previous fiscal year. Accordingly, the Naval Audit Service report covers FYs 2001 and 2000.

Disclaimer of Opinion. The Naval Audit Service disclaimer of opinion on the FYs 2001 and 2000 Department of the Navy Working Capital Fund Financial Statements, dated February 13, 2002, states that the Naval Audit Service was unable to express an opinion on the financial statements. We concur with the Naval Audit Service disclaimer of opinion. The Department of the Navy Federal Managers Financial Integrity Act Annual Statement of Assurance reported that the Department of the Navy Working Capital Fund activities did not adequately manage, accurately account for, or properly report: (1) Fund Balance with Treasury; (2) property, plant, and equipment; (3) inventory and related materials; (4) accounts receivable; and (5) accounts payable. These deficiencies preclude an audit opinion.

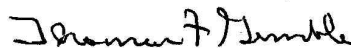
¹ On January 25, 2002, the General Accounting Office issued a new Government Auditing Standard on organizational independence. The new standard is to be applied on a prospective basis and does not affect the audit work that was ongoing for the FY 2001 financial statements. We will apply the new standard for future audit work and will not delegate the financial statement audit work.

Internal Controls. The Naval Audit Service did not express an opinion on internal controls. They determined whether internal controls had been placed in operation by reviewing the FY 2001 Department of the Navy Annual Statement of Assurance. The Department of the Navy reported the Navy Working Capital Fund Financial Statement Accountability as a material weakness in the FY 2001 Annual Statement of Assurance. Given the significant deficiencies reported by management, the Naval Audit Service did not perform tests of internal controls.

Compliance With Laws and Regulations. The Naval Audit Service did not express an opinion on compliance with laws and regulations that could have a direct and material effect on the financial statements, but identified areas of noncompliance with laws and regulations. In the FY 2001 Annual Statement of Assurance, the Department of the Navy reported the Working Capital Fund Financial Statement Accountability as a material weakness because Working Capital Fund activities did not adequately manage, accurately account for, or properly report: (1) Fund Balance with Treasury; (2) property, plant, and equipment; (3) inventory and related materials; (4) accounts receivable; and (5) accounts payable.

Under the Federal Financial Management Improvement Act of 1996, audits are required to report whether financial management systems substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The Naval Audit Service concluded, based on the Annual Statement of Assurance and disclosures in the notes to the financial statements, that the financial management systems do not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Details on the adequacy of internal controls and compliance with laws and regulations are discussed in the Naval Audit Service report.

Review of Naval Audit Service Work. To fulfill our responsibilities for determining the accuracy and completeness of the independent audit work that the Naval Audit Service conducted, we reviewed the audit approach, planning, and summary working papers supporting the Naval Audit Service report. The Naval Audit Service did not receive a management representation letter from the Navy for the FY 2001 Department of the Navy Working Capital Fund Financial Statements. Ordinarily, such an omission would be sufficient to cause the Naval Audit Service to disclaim an auditor's opinion. The Naval Audit Service made no mention of this in the auditor's opinion, because other factors precluded the Naval Audit Service from rendering an opinion. For the FYs 2001 and 2000 Department of the Navy Working Capital Fund Financial Statements, we found no indication that we could not rely on the Naval Audit Service disclaimer of opinion or its related evaluation of internal controls and compliance with laws and regulations.



Thomas F. Gimble
Acting
Deputy Assistant Inspector General
for Auditing



DEPARTMENT OF THE NAVY
NAVAL AUDIT SERVICE
1006 BEATTY PLACE SE
WASHINGTON NAVY YARD, DC 20374-5005

Auditor's Report on the Financial Statements

We were engaged to audit the Department of the Navy Working Capital Fund Financial Statements as of and for the Fiscal Years ended 30 September 2001 and 2000. The Department of the Navy is responsible for these financial statements, for establishing and maintaining internal controls, and for complying with laws and regulations applicable to Department of the Navy financial accounting and reporting.

The condition of the Department of the Navy Working Capital Fund systems, records, and other data did not permit the application of auditing procedures sufficient to complete an audit. As reported in the Fiscal Year 2001 Statement of Assurance, the Department of the Navy Working Capital Fund activities did not adequately manage, accurately account for, or properly report: (1) Fund Balance with Treasury; (2) property, plant and equipment; (3) inventory and related materials; (4) accounts receivable; and (5) accounts payable. These weaknesses were first reported in the Fiscal Year 1993 Statement of Assurance. Although the Department of the Navy originally estimated corrective actions would be completed by Fiscal Year 1995, progress in correcting these material deficiencies has been slow and currently the Department of the Navy does not have an expected date for completing the necessary corrective actions.

Disclaimer of Opinion. Based on the foregoing paragraph, the scope of our work was not sufficient for us to express, and we do not express, an opinion on the Department of the Navy Working Capital Fund Financial Statements as of and for the Fiscal Years ended 30 September 2001 and 2000.

Luther N. Bragg

LUTHER N. BRAGG
Acting Assistant Auditor General
Financial Management and Comptroller Audits

13 February 2002

